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STRATEGIES FOR GEN Y

LONG-SHORT FUNDS
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Money

MARCH 2016 $7.95 ISSUE 187
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MARCUS PADLEY
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ISSN 1444-6219

moneymag.com.au

Money is published by Bauer Media Pty Limited (ACN 053 273 546), part of the Bauer Media Group, 54-58 Park Street, Sydney NSW 2000. The trade mark *Money* is the property of Bauer Consumer Media Limited and is used under licence. Printed by PMP Moorebank 31 Heathcote Rd, Moorebank NSW 2170

SAVINGS & GIVEAWAYS

FREE COURSE ON RENOS
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PAGE 90

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An alternative to the home ownership dream

Are we living beyond our means? According to an MLC-commissioned paper on savings and retirement, almost one in two Aussies say they are living "pay cheque to pay cheque". This doesn't surprise me but what does is that one in five of those who said they were doing it tough had a household income of more than $200,000. This suggests we have a serious problem understanding the difference between "lifestyle" and "standard of living".

Of the people surveyed, 76% said their mortgage has a big impact on their lifestyle. But there is an alternative to taking out a massive home loan, and that's taking out an investment loan instead (yes, it may still be massive but for an investor there a plenty of perks to ease the burden). This month's cover story, written by Ben Kingsley, an advocate of rentvesting and CEO of Empower Wealth, a specialist property advisory firm, challenges the traditional thinking about the great Australian dream of home ownership.

If you're willing to accept some of the assumptions in this cover story, the plans speak for themselves. "Rentvesting" can let you live where you want to live and still build wealth. And with all the talk about caps on negative gearing, there may be an urgency to get in while it is still around.

feedback

LETTER OF THE MONTH

How parents can help the kids

I enjoyed your recent article about parents helping kids get into their first home (The Challenge, February). We have two kids and have done this with one so far and are working towards doing something equivalent with the other (in a different city).

The gist of what we have done is to pay cash for a percentage of the property as tenants in common (we have gone 50% but the actual percentage doesn't really matter). Our names are on the title and we have a co-ownership agreement that sets out all our expectations (essentially we pay half the rates and house insurance each year, charge no rent, and will fund 50% of any major maintenance and agreed alterations up to 10% of the purchase price. Each party has first option to buy out the other and if we ever can' agree on something the place simply gets sold.)

One of the "hidden" advantages of this arrangement is that you tend to get more value for money just a little bit up from the bottom rung of the market. (Perhaps I shouldn't be telling people this!) So we have bought a place with a superb location (fantastic views; park/playground next door; short walk to shops, transport and beach; choice of schools; growth area, etc – yes, it's Hobart, not Sydney or Melbourne). While quite livable, it could easily be improved with a little work.

To make sure we are being scrupulously fair to both kids, our will sets up a testamentary trust after our demise, so any capital growth always gets averaged out between them. There may well be potential problems we haven't spotted yet but we all get on well and we have no doubt we will work out any issues that arise.

Rob, Vic

Big boost to super

I feel compelled to respond to Linda's letter, "No cash to sacrifice" (December 2015-January 2016).

Linda, you do have the cash. You just need to do some calculations. By directing just enough money into your super fund to drop into a lower tax bracket, you will have the same take-home pay. Easy. Distribution at source.

I'm fast approaching 70. At 50 I started this strategy. It's easier to get the facts nowadays. The boost to my super funds has been surprisingly significant.

Shirley, Qld

Inspired by a Socceroo

I have been buying *Money* for a while. I am a single mum raising twin teenage boys who are huge football fans. I handed the boys an article from a previous edition about the Socceroo Tim Cahill (Interview, June 2014), which has inspired my sons enormously.

Being only 14½, they have both secured jobs at McDonald's, working most of the school holidays with the goal of saving a deposit for a unit in joint names to build wealth. They promise to look after me in retirement but their commitment to a savings plan and a strong work ethic has set them on the right path, with much help from *Money* and Tim Cahill. Clearly it's never too young to inspire good financial sense. Thanks so much

Sonia, email

CORRECTION

In our February 2016 Top 50 shares cover story there was an error on the progress report on page 44. The All Ordinaries return for 2012 was 17.9% not -0.2%, as appeared on the table. This then means that the All Ords rose 11.8%pa over the four-year period (not 6.4%pa as stated in the article), meaning that $50,000 invested in the index in that period would be $75,904 not $64,097.

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Write to: Letters, Money, GPO Box 4088, Sydney, NSW, 2001 or email money@bauer-media.com.au

The sky isn't falling – lower energy prices will benefit most of us, writes Paul Clitheroe

IF YOU HAVE ANY IDEA of what sharemarkets are doing at the moment and why they are doing it, please do drop me an email and let me know. As I write this in early February, our market seems to be alternating on a daily basis from fear to joy. It really is quite odd.

Given many Australians seem to have a share portfolio consisting of banks and resources, it has been a very volatile time for millions of investors. Those with more broadly spread portfolios have been much better positioned as shares in other sectors such as health, technology and communications have fared much better. It was not long ago that the media were speculating about whether Commonwealth Bank or CSL, both sitting at around $95 at the time, would be first to break through $100 a share. As I write this article, CSL is, with little fuss or publicity, around $105 and CBA is in the mid-$70 range.

Speaking of shares in the food and health sector, Blackmores, which was selling at $80 or so just five months ago and reached $219 in January, is still trading at more than $170. At the other extreme Santos, with its high leverage to energy prices, is having a shocker and, as a long-term holder of BHP Billiton, I really am quite surprised to see it back in the mid-teens.

Those who share my view that investing solely in shares in the narrowly focused Australian economy is madness will also have had a much better time. Sure, my international shares, like yours, are down from their peaks, but the fall in the Aussie dollar of some 40% against the US dollar has meant that, in local dollar terms, international shares have actually performed quite well.

What all the doom and gloom is actually about, I am not overly sure. Yes, I get the general idea. Lower energy and resource prices is terrible news for energy and resources companies and their prices are well off. It is also destabilising for oil-producing countries.

But what really causes me to scratch my head is that as oil prices headed to over $100 a barrel last decade, markets fell on the fear of higher energy prices flowing through to everything we buy.

On the flip side, there will be nasty side effects, such as job losses

So if rising energy prices are dreadful news and point to impending doom and disaster, exactly why do falling energy prices also lead to doom and disaster. I wonder if we are just in the mood for doom and disaster. It is certainly well supported by the media as any yarn about "the sky is falling" makes for a great headline.

My views are not newsworthy but I suspect rather more realistic. The end of the world is not coming. Lower energy prices are, in fact, very positive for consumers. It is not just that we have cheaper petrol in our cars, it flows through to just about everything we eat and use. Lower energy prices also stimulate our economy. Just take a look at the share prices of an energy user such as Qantas Airways. On the flip side, our energy producers will have a tough time and there will be nasty side effects, such as job losses.

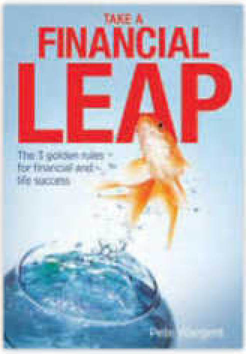
As we are a commodity-based economy, we have seen our dollar fall dramatically. This is just terrific for our exporters and this, of course, includes energy producers that sell to overseas markets. Tourists pour into Australia and our critical tourist trade booms. Of course, there is a flip side here. We Aussies are global wanderers. I am writing this, thanks to the incredible world of technology we live in, on my iPad in Dallas.

My coffee and breakfast bill will arrive shortly and, given the current exchange rate, it won't be a pretty sight when I convert US dollars to our currency. But in this strange old world we live in, this is also a good thing for Australia. The reality is we will cut down our international travel and spend more holidays at home, adding to the tourism boom.

Yep, I can point to plenty of global economic problems, but it is more realistic to also enjoy some of the really positive developments in Australia and globally. You see, on balance, as always the world is not a perfect place. But it is pretty good.

GETTY IMAGES

BOOK OF THE MONTH



TAKE A FINANCIAL LEAP

Pete Wargent

BIG SKY PUBLISHING RRP $24.99

Pete Wargent is an investment expert and coach who has already published two finance books. He believes that if you master three golden rules, you can multiply results – not only in investments but in all areas of life.

A chartered accountant by profession, Wargent resists the temptation to overwhelm readers with numbers and instead uses case studies, making this book easy to digest. His philosophy is based on the 80/20 principle (most of your results will be derived from a handful of decisions); "snowballing", or the power of compound growth; and the pleasure-pain principle (what you link these feelings to will determine the way you act).

He describes his book as a "motivational tool which will help you set big goals, teach you how to transition from paid employment towards financial freedom and how to improve the quality of your life, health and relationships." EMI BERRY

Ten readers can win a copy

In 25 words or less, what is your one golden rule for financial and life success? Send entries to Book of the Month, *Money*, GPO Box 4088, Sydney, NSW 2001 or email money@bauer-media.com.au. Don't forget to include your name and postal address. Entries close April 6, 2016.

THE BUZZ

Accountant role limited

A licence is required to give non-tax advice to SMSF trustees

If your accountant usually gives you investment and strategic advice on your self-managed superannuation fund (SMSF), you may have to find another source of guidance. Unless he or she has obtained a limited or full Australian financial services (AFS) licence by June 30, they will be unable to advise SMSF trustees on a range of issues, including investment strategies and pensions.

"Unfortunately, SMSF clients will be inconvenienced as their accountant won't be able to tell them much before they tip over into advice," says Liz Ward, the head of education at the SMSF Association.

Australians typically start an SMSF on their accountant's recommendation. There are more than 550,000 DIY funds with more than 1 million members. But so far the Australian Securities and Investments Commission (ASIC) has received only 226 applications for limited licences and, of these, only 78 have been issued, says Ward. "This is despite the fact the process has been open for more than 2½ years. Across the industry there is concern and, to some degree, bewilderment about what the thousands of accountants who now advise SMSFs will do after June 30."

Trustees will only be able to obtain tax advice from their accountant and will need to turn to experts with the right licences, such as financial planners.

If your accountant doesn't have a licence, don't bother asking them if they recommend you start a SMSF, or for the performance of different types of super choices, or if they recommend one fund over another, or if you should consolidate your assets into a single fund or increase your contributions above the super guarantee amount of 9.5%, or if you should commence a pension. They won't be able to recommend a property purchase through an SMSF, prepare an investment strategy or recommend types of investments.

"We strongly recommend that accountants intending to provide SMSF advice apply for their AFS licence, arrange their personal indemnity insurance and join the Credit and Investments Ombudsman service before March 1 to allow sufficient time for assessment," says Raj Venga, its ombudsman and chief executive. CIO is an industry-funded dispute resolution scheme with more than 20,000 financial services providers as members. SUSAN HELY

THE BURNING QUESTION

Should I start a TTR pension in case they're scrapped?

Jonathan Philpot, partner, Wealth Management, HLB Mann Judd

Regardless of speculation over legislative changes, if you are over age 60 and still working, you should still commence a transition to retirement pension – even if you do not require the minimum pension to assist with living expenses.

A common strategy is to salary sacrifice up to the maximum concessional contribution level, which will provide a tax benefit of the difference between your marginal tax rate and the super tax rate of 15%. You then draw a pension from your TTR to assist with the reduction in your salary so that your household cash flow is not reduced.

The additional benefit of this strategy is that your super tax rate reduces from 15% to nil once in the pension account. This can be a substantial tax saving if your super balance is, say, $500,000, and the taxable earnings are 5%. In all, the strategy would save tax of $3750 in that year.

If you are under 60, there may still be some benefit in adopting this strategy but it will depend on a number of factors, including your current super balance, your personal taxable income and how much of your super balance is "tax free". Otherwise, any pension started before 60 is classed as taxable income but it has a 15% rebate attached.

JIM TSINGANOS

FREE MONEY

Age pensioners' trip

My husband and I have booked an overseas holiday for later this year. Will this affect our age pension?

Generally, your payments will continue for the time you are overseas. However, your rate will be reassessed, depending on how long you are away. Once you have been outside Australia for six weeks, your pension supplement will reduce to the basic amount. Your concession card also becomes invalid at six weeks but will be automatically reactivated when you return.

If you are out of the country for more than 26 weeks, your rate of age pension will be calculated on the length of time you were an Australian resident between 16 and age pension age. This is called your "Australian working life residence". In most cases, the maximum means-tested age pension rate is payable if you have a working life residence of 35 years or more.

As a general rule, age pensioners only need to contact the Department of Human Services if their overseas holiday is expected to last for longer than six weeks. Visit humanservices.gov.au/paymentsoverseas to find out more.

HANK JONGEN, Department of Human Services

BOTTOM LINE

High returns should appeal to self-managed funds

It is hard to go past the AMP Capital Core Infrastructure Fund's 11.3%pa return over the past five years. In a low-yield investment climate, it is a standout.

The fund gives self-managed super funds direct access to assets usually available only to large institutions. About half the investments are in direct infrastructure such as Melbourne Airport, Australian schools and Angel Trains in the UK. The other half is in listed infrastructure shares that provide liquidity. The minimum investment is $10,000 and the recommended time frame is at least five years.

With term deposit rates low and sharemarkets weak, alternative investments such as infrastructure are being rolled out to investors. Investment managers like to describe infrastructure as a "defensive" asset because it can deliver regular cash flows through economic cycles. And infrastructure isn't necessarily correlated with sharemarkets.

The fund is available through AMP's SMSF Suite. It delivers investors both capital growth and a cash yield (6.6%pa of the 11.3%pa earned over five years). During the same period, comparing the fund with the S&P/ASX 200 Accumulation Index, the AMP fund delivered 162% of the return of Australian equities with only 40% of the volatility.

AMP's SMSF Suite, launched in May 2014, also includes the Wholesale Australian Property Fund, Corporate Bond Fund, Global Infrastructure Securities Fund and Dynamic Markets Fund. SUSAN HELY

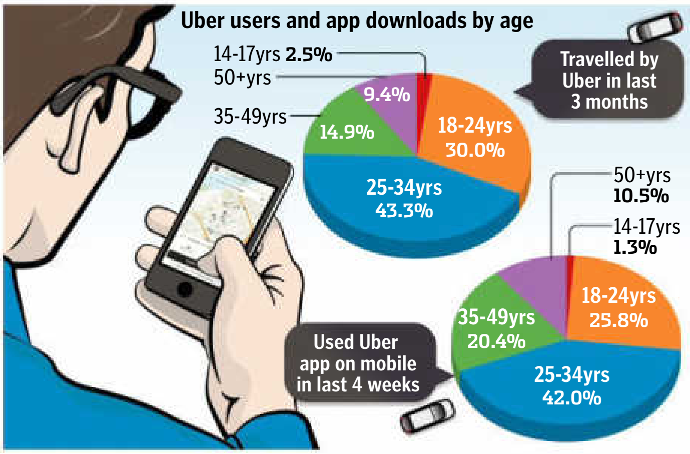
MONEY VERDICT

It is always hard for investors to know if an investment manager has paid too much for the assets. The fund's performance of 11.3%pa over five years lags the MSCI Australian quarterly unlisted infrastructure index of 13.9%pa over five years but AMP does not use this as a benchmark. Also watch out for the fees. The investment management fee is 1.5% plus 15% of the fund's performance above its benchmark, which is the 10-year Australian government bond yield plus 3.25%.

UBER GAINS MORE THAN A FOOTHOLD

Nearly 1 million Australians aged 14 or older said they'd travelled by Uber at least once between July and December last year and nearly 75% of them were between 18 and 34 years old. And of the 555,000 people who used the app, two-thirds were in that same age group. West Australians have been the fastest to take up the service: 10%-plus are using it (5% for all Australians). NSW lags behind both Queensland and Victoria, even though it is still illegal in both states.

LINDSEY LEATHART



SOURCE: ROY MORGAN SINGLE SOURCE (AUSTRALIA), JULY–DECEMBER 2015

APP OF THE MONTH

Quartz
Cost: Free
OS: iOS (Android coming soon)

It's been said before, but Quartz might really be the future of news. Curated by a team of Washington, DC journalists the app feeds you global breaking news headlines in an iMessage-style thread.

You can set customisable notifications to buzz when a story you'd be interested in is making headlines, ultimately allowing you to filter the news yourself. It's also wonderfully interactive, as it illustrates stories with humorous GIFs and emojis, and allows you to respond to the news by pressing buttons such as "I've got a bad feeling about this" or "What else is new?" By clicking on a message, the app takes you directly to a link to a major news publication.

This is an app that delivers short, punchy and interactive news headlines that are easy to read and it is made to feel as if it should be an ingrained part of your daily activities. STEPH NASH

WHAT'S NEW

ASX slips into the faster lane

Settlement period cut from three to two days

The ASX is introducing a new trade settlement period, shortening the process from three business days to two. The change, which takes effect from March 7, means that your trade will be settled two days after your order is executed. This applies to Australian shares, exchange traded funds, government bonds, warrants and interest rate securities traded on the ASX and its rival Chi-X. Contracts for difference and international shares are unchanged. Exchange traded options will also stay the same, except where an Australian share trade takes place.

There will also be some changes to the contra process. If you execute multiple trades over one or two days, the executed trades will be offset and only the difference between the trades will be credited on settlement.

Online challenge

According to research by the Australian Securities and Investments Commission (ASIC), many Australians have a poor understanding of key investment concepts. The regulator's MoneySmart division recently launched a new online investing challenge to help improve our financial literacy. There are three interactive modules to the challenge: risk and return; diversification; and understanding investment products.

The initiative is designed to help investors gauge reasonable returns for individual products and assess the risks. You can take the challenge at ASIC's consumer website moneysmart.gov.au.

Best of the platforms

Investing platforms have improved in efficiency and transparency for advisers over the past year, reports Investment Trends. Its 2015 Platform Report surveyed advisers on platform usability and functionality.

Netwealth took out the top spot for overall platform functionality, receiving praise for its transaction, support and online business management tools, and its model portfolio functionality. Colonial First State's FirstWrap and HUB24 took out second and third place respectively, followed by Asgard eWrap, MLC Wrap and Navigator.

STEPH NASH

TAX TIP

Beware the scams

Don't give details to dodgy callers

Tax scams have been around for years. As each scam is publicised, scammers adopt new techniques to lure unsuspecting taxpayers into either paying fictitious debts or handing over personal information.

The latest scam is the most aggressive and blatant yet, with thousands of Australians falling victim over the past few months.

It works like this: You receive a phone call purporting to be from a tax office auditor, advising you that you have an unpaid debt which must be settled over the phone immediately to avoid arrest. In some cases, the scammer has access to personal information about you (perhaps your workplace or address), which makes their story sound convincing.

In reality, the ATO will not call you to chase an outstanding debt without having written first. If it does call you, it will certainly not use intimidatory tactics to enforce immediate payment.

If you receive a call and have reason to doubt that the caller is genuine, always ask for their details and call back the ATO on 132 869, asking to be put through to the named officer.

And never disclose personal information or financial details to a caller and never give out credit card details or arrange for any other form of payment.

MARK CHAPMAN, DIRECTOR OF TAX COMMUNICATIONS, H&R BLOCK

GETTY IMAGES

An entrepreneur who nurtured an early ambition to 'create something' has fulfilled it in craft brewing, writes Deborah Light

A head for business

FROM EARLY ON PETA Fielding had a calling – she just didn't know where it would take her. "I always wanted to be the one carrying the briefcase," she remembers telling her mother as a teenager. "I wanted to be the boss; not to boss people around, I just had this sense I wanted to create something. I didn't know what it would look like. I wasn't passionate about a product, or the money, as such. I just wanted to create something from nothing – and then build it." To best equip herself, Fielding determined to excel at school. Tick. Then came an opportunity to do a law degree followed by an MBA, Tick, tick. Both were scholarships, incidentally.

To Fielding these were simply opportunities on the way to achieving that unidentified goal. But there was an unexpected bonus. While completing her MBA in Hawaii she met the man she would marry: Brennan, an experienced brewer. "He was super-passionate about brewing. There was his passion and my passion – how can we do this together? Obviously you need to make a living, so it has to be profitable, but we wanted to build something that was part of our life."

When the brewery that employed Brennan filed for bankruptcy, Peta again saw opportunity. "We put a group together and bought it for a ridiculously low sum of money, compared with what it cost to establish." They built it up over the following years before selling out. "That was proof we could do it, to ourselves and to others," says Fielding. "We learnt a lot and it was a big step financially towards something on a larger scale."

PETA FIELDING

Co-founder and CEO of Burleigh Brewing Co and chair of the Australian Craft Beer Industry. Aged 45

Lives at Mudgeeraba in the Gold Coast hinterland. Former corporate lawyer. First job: working in the eatery of a local service station – a three-kilometre walk from home – aged 15.

Brisbane-born Fielding brought Brennan back to Queensland, settling on the Gold Coast – where he could surf, besides there was no brewer in the area. Nearly 10 years on, the co-founders are majority shareholders of Burleigh Brewing Co, one of Australia's largest regional brewers boasting beers that have won many awards, including 20 gold medals over recent years at the annual world beer championships in Chicago. Their range is free of sugar, chemicals and preservatives and includes Australia's first and only no-carb beer. They sell around the country through hotels and major outlets and, while Fielding doesn't talk turnover, she says the operation has gone from a staff of two to 30 full time, selling several thousand cases of beer every day under seven labels (her favourite: My Wife's Bitter) plus limited releases.

She likens their experience of launching the business to leaping into the unknown – indeed, one inspirational business book whose title became their catch-cry was Richard Branson's *Screw It, Let's Do It*. "There was no back-up plan. We had two children and we both left the jobs we had. It was the whole family jumping in. We did a lot of research into suppliers and equipment, the market and licensing just to make sure that there wasn't anything that was going to trip us up in a big way." On whether she'd recommend an MBA for those starting a business, by the way, she says: "Maybe it was part of a confidence builder for when we wanted to take that leap. I felt if we hit a rough patch I've got some skills that can help us." Besides, doing that MBA was how she met Brennan. Enough said.

The couple needed to persuade potential backers they'd done their homework. "We hadn't just been sitting around at a barbecue saying, 'Let's do something.' There'd been many years of thinking and planning. We were also able to point to the experience we'd had in Hawaii." Because the pair wanted to keep control they also sought bank funding. "If this was to be our life, we wanted to be majority shareholders – but for other people to want to invest, it had to offer a return. So we put together a hell of a business plan."

The preparation paid off. "Within six weeks of putting the business plan out there, we had the bank's funding – under $1 million but significant – and investment funding.

HEATH MISSEN

"There was **no back-up plan**. We had two children and we both left the jobs we had"

Taste of success ... Fielding's favourite brew is My Wife's Bitter.

We went: 'Oh my god, we're doing it!'" It was no overnight success. The brand took about four years to gain traction after its 2007 launch and Fielding remembers months when the couple didn't pay themselves as the bank balance ebbed. "I probably lost a lot more sleep than Brennan because I was looking at the numbers every day," Fielding recalls, letting loose one of her characteristic laughs that often double her into paroxysms. "We had to cover the set-up costs because this was not a backyard operation. It had to have some substance to it. A small manufacturing business is difficult at the best of times but a tiny one is just hard work – so the first few years were about growing into it before the money ran out."

Fielding is grateful to her investors – "we've got a great group we can talk to and get advice from" – and her bank, which she found after a rigorous search. "I spent about six months, I swear, interviewing every bank manager on the Gold Coast. I was choosing someone who would get our vision, what we were doing, get issues that we were facing and work with it." Plenty weren't interested but the one who was is with them still. "Now, when some of those other banks come knocking, I tell them, 'I hope your loyal customers would do this for you but I have an amazing relationship with an amazing banker and I'm not going to throw it out the door.'"

"It's how brewing began. We think the trend is new and hip but **it's old and daggy**"

Underfunding is a common slip-up for many new businesses, particularly brewers, Fielding believes, and she often sees it in her role as chair of the Australian Craft Beer Industry Association. "It's a low-margin, high-volume game and liquor excise is payable on beer pretty much as soon as it leaves the brewery and that's about $15 a carton. You have to be able to fund that and when you're growing that problem can be magnified." Fielding arranged with her bank an invoice financing facility that allows businesses to draw money against sales invoices before they've been paid by customers.

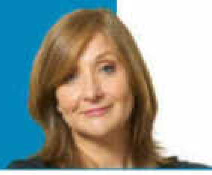
In the not so old days, most hotels offered little choice in beers, maybe old and new. Today the number of boutique brews on offer in some trendy pubs can rival a decent wine list. Regional brewers have exploded in number – from about 30, mostly owned by big corporates, when Burleigh Brewing began, to more than 200. While competition might be more robust, there's nothing new about the trend, she says. "It's how brewing began. We think this is new and hip but it's old and daggy," she says, doubling up again.

The Fieldings source as much as they can locally, even when it costs more. It's not only about supporting the community, it often makes better sense in that, if things go awry, you can deal more easily with a business down the road than one on the other side of the world. Their monthly Friday night Brewhouse Bashes, with music and food, are popular too, not least because profits go to supporting local causes.

Fielding has talked before about the importance of work-life balance. "You hear a lot about people going into business as husband and wife and the business survives but the marriage doesn't," she explains. "It's intense. It's hard. You don't walk away from it and have a day off. It never leaves you. So we made a commitment. We said at the outset we're doing this together for a reason and us surviving it is as important as the business surviving it."

The only girl between two brothers who are also high achievers, Fielding thanks her parents, who owned a furniture store, for instilling in her their "very positive view of the world". She also got a good grounding when it came to money. She remembers the day her father came to the dining table to announce he'd paid off the house. "I was about 13 and I think that set me up for what was important financially. I was always a good budgeter. My approach is conservative but with a purpose. So I'm happy to take risks but I want to analyse them first to know what I'm doing."

The couple try to encourage the same in their mid-teen son and daughter, as is evident in a recent experiment. "We gave them the grocery budget and showed them the shops they could buy from online, and said, 'You guys are going to manage what we buy and eat for the summer holidays and we'll get it delivered.'" There's another guffaw as she recalls a misstep involving five kilos of brussels sprouts – a vegetable she personally loathes – worth some $65 that arrived on the doorstep. But overall, everyone was happy with the outcome. "We give them chances to budget and think about what things cost ... they loved it, they really got into it – while I worked my way through those wretched brussels sprouts."



CASE STUDY

Offshore property for SMSF

DIY super funds must be careful to follow all the rules, writes Susan Hely

NAME: Sarat and Ranjith
STATUS: Married with a three-year-old
QUESTIONS: How do I go about buying a property in India with funds from my self-managed super fund (SMSF)? I have six investment properties. Am I on track to becoming financially self-sufficient? Will my investment properties give me an asset base of $4 million and an income of at least $100,000 by 2020? Where should I buy a two-bedroom apartment in Melbourne over the next two years?
SOLUTIONS: Pay off the mortgages to build equity in your properties and lower your loan-to-value (LVR) ratio. Draw up a strict budget to find extra repayments to reduce your debt. Check your trust deed as you can buy overseas property only if it is allowed in your trust deed. Follow all the SMSF requirements carefully and get good advice.

Sarat Jilla and husband Ranjith want to invest their SMSF funds in commercial or residential property in the IT hub of Hyderabad, India, as part of their investment strategy for retirement. "I've been doing my research and this is the right time to get into the market," says Sarat. Changes by India's central and state governments to the laws for foreign investors have led big global companies such as Amazon, IKEA and Google to set up in Hyderabad to tap into a huge consumer market.

Sarat believes in property because her forays into shares haven't always worked out. Since 2007, the couple have bought six investment properties around Australia outside their SMSF. They set up their fund specifically to invest in property as outlined in their trust deed.

"We are looking at a purchase price of $200,000 for a property in Hyderabad. We currently have around $175,000 in our SMSF so we may need to borrow some money, most likely from an overseas financial group." Luckily Sarat has some Indian assets to use as security.

She wants to know what documents the Australian Tax Office needs. "Do we need to notify any government agencies before or after the transaction takes place (as it is a big amount) to gain approval?"

She would also like to know if she can send the money directly to the vendor's personal bank account as a bank transfer or to her personal bank account overseas, then withdraw it and pay the vendor for the registration on the required day.

Sarat says she understands limited recourse borrowing but it is not well known in India. "Do I need any different type of contract to the bank when we borrow?"

Also how long does she have from the date of registration of the property to produce documents in Australia? Apart from her accountant, is there any other source of information such as a website or someone she can approach without paying too much in fees for last-minute questions?

Sarat rents but in the next two years wants to buy a two-bedroom apartment to live in. She has a budget of $600,000-plus and is interested in Balwyn and Kew. What other areas should she look at?

Sarat says that her goal is to build an asset base of $4 million net and be financially independent by the end of 2020 with an income of at least $100,000 a year generated from her property portfolio here. She wants to know if there is a better way to reach her goal than her current strategy.

EAMON GALLAGHER

Strict budget will cut debt

MARGARET LOMAS

Margaret Lomas is founder and director of Destiny Financial Solutions and the best-selling author of seven property investment books.

Sarat has certainly begun her journey but she has some way to go and needs to be sure that her next steps are sound ones. While she says that shares didn't work out, it's more likely that she did not have a well-thought-out strategy or the right education for share investing, and the same danger exists in property investing. Too often investors have a misplaced sense that property is easier and this is born of both its familiarity in our lives and its physical presence. Poorly chosen property can perform just as badly as poorly chosen shares and it will be critical for Sarat to know more about how to buy property well before she invests another cent.

Under the new APRA requirements around loan-to valuation ratios, Sarat's portfolio is already at its maximum in terms of borrowing and she now needs her equity to grow before she will be able to borrow more. This can happen in two ways: through normal market movement and through debt repayment, and I recommend both.

In terms of debt repayment, the current rental income, plus the likely tax breaks on both actual and depreciation expenses, it looks as if this portfolio may well be close to break-even in terms of its cash flow – the rent plus the tax breaks are pretty close to covering the outgoings. Sarat must prepare a strict budget and make extra repayments to get this debt reduced. As she has plans to buy an owner-occupied property in the future, I suggest she set up an interest offset account against one of the investment properties rather than repay actual debt. The result is the same (less interest paid, therefore more money saved) but in this case the cash is preserved to use as a deposit on what will be a non-deductible property, rather than having to use equity in the investments to draw down a large debt for the new home.

To buy a unit in Balwyn or Kew, both of which I believe will show good growth in the coming three to five years, Sarat will need a deposit equal to $60,000 (90% loans are available for owner-occupied properties) plus about $30,000 in costs – a total of $90,000. Some of the properties in the present portfolio exist in areas which I think will have some growth in 2016-17. A growth of just 4% in the coming two years across this entire portfolio would provide extra borrowing power, meaning Sarat would need to save only a further $10,000 or so to be able to buy the $600,000 unit to live in.

Although this unit adds to her net worth, I never feel it's sensible to include the value of your own home in calculations for future wealth – you have to live somewhere and, if all your wealth is tied up in your own home, your only option is to sell it to get to your money. To produce a retirement income of $100,000 a year from property you would need net property assets of around $2.2 million. Property holding costs are generally around 1% of value, and so $2.2m in assets would provide enough income, at a 5% average rent return, to pay the holding costs and leave close to $100,000. Any growth in Sarat's present equity belongs to her.

Even if the present portfolio grows 5% in value every single year until the end of 2020, Sarat will only create about $1.2 million in total equity which, after holding costs, may produce around $50,000 a year in net income.

She could add a few more properties but, unless the timing is so good that she invests just before a boom, the first five years are normally needed to recover from the buying costs and to see a positive cash flow. Sarat can keep saving money in offset (or repay debt) but, on present incomes, savings capacity is limited.

The good news is that the 10-year picture is much healthier and, as long as she has bought with the benefit of significant research and in true growth areas, the cash flow and net values will most likely improve most years. So, even if Sarat decided to retire in, say, six years, she could do so on around $60,000 net income but, by the time she is retired for four years this would have increased to the $100,000 she is looking for.

Beware the traps

CRAIG DAY

Craig Day heads technical services at CBA's wealth management arm and has 18 years' industry experience.

Under superannuation investment rules, a trustee of an SMSF has the flexibility to invest the fund's assets in whatever investments they consider appropriate, including overseas residential investment property. However, there are a range of compliance issues that should be considered first. These include:

- Whether the fund's trust deed allows for the fund to invest in property outside Australia – if not, a deed can generally be amended to allow for this.
- If the investment would be consistent with the fund's existing strategy.
- That the acquisition would not breach the super investment rules. For example, a trustee is generally prohibited from acquiring certain assets, such as a residential property, from a related party, including fund members and relatives.

In addition, a trustee will need to do their homework on the property ownership rules in the foreign country. For example, some countries, such as Australia, restrict foreign nationals from buying types of property, so it would be vital to check this.

It will also be important to confirm that the trustee will be able to secure legal title to the property in a form that can be evidenced and that any ownership structures or arrangements will not breach Australian super laws. For example, in some countries foreign investors are required to acquire property via a resident company, in which they hold the shares. However, this may cause a problem with Australian super laws as restrictions apply when dealing with related entities. Seek specialist advice first.

Trustees exploring the option of using a limited recourse borrowing arrangement to acquire overseas property should proceed with caution. These rules are very complex and require a very specific type of loan arrangement to be put in place. As a result, both the lender and the trustee need to have a good understanding of the legal requirements otherwise the risk of non-compliance could be very high.

Among other things, trustees will generally need to establish a bank account for the fund in the overseas country to complete any purchase transactions as well as to receive rent and pay expenses. And they will need to understand what documents an accountant and auditor will require to administer and audit the asset and the costs of having those documents translated into English. While overseas property investments can seem like a good idea, they can also come with a range of compliance and practical questions that need to be resolved first. Proceed with caution and get good advice.

While interest rates are low, Steve could ...

Take a less conservative path

Q I'm 33 years old with a mortgage of $140,000 on a house worth about $430,000. I earn $90,000 and I have established a savings account that would cover my living expenses for around five months if something were to happen. My first and ultimate goal is to own my home by the time I reach 40 and I'm currently working towards this by repaying my mortgage at $850 a week. My second goal is to achieve financial independence by 60 and no longer work.

Once I have achieved this first goal of home ownership, what would you recommend with regards to my second goal and setting out a path to achieve this?

A What I would really like to know is how come so many readers are doing so well at such a young age. I suspect I am a dinosaur but I recall that at 33 my assets were outdone by my liabilities. Then again, it could have been that when I was 33 it was 1988 and mortgage rates were on the way to 18.75%!

That, though, is not your problem. You are in a great position and I am super impressed you have a five-month savings buffer – what a great idea. I like your plan to own your home by 40 but I hope you are putting your extra payments into an offset account. I worry that if you pay off your mortgage, keep the property as a rental and re-borrow to buy a new home you will have no debt on what would be your investment property, hence no interest tax deductions, and high debt on your home, which is not tax-deductible.

You may also be being too conservative. While we have low rates, I wonder if you should take a look at an investment property or building a share portfolio. With your mortgage at, I imagine, 4%, paying down such low-interest debt, while never a bad idea, may be overly conservative.

You already have a lot of equity and a very good savings habit. This decision is based around your personal attitude to risk but if in doubt paying off your home just cannot be a bad idea.

Kate has a lot of assets so ...

Good advice is crucial

Q I'm 58 and not working and don't expect to work again – I have a few health issues. I own my home worth $600,000 (it needs repairs) and have $430,000 in superannuation, $220,000 in managed funds (they have not done well), $160,000 in direct shares (some good, some bad), two investment properties ($500,000 and $800,000), an outstanding mortgage of $330,000 and savings of $10,000.

I'm finding that I don't have much cash flow. I did see about doing a transition-to-retirement pension but the fees were very expensive – about double what is paid now. I was surprised. What's the best tack I should take?

A I make a real effort to be proactive and give what guidance I can but based on the small amount of detail here I am really concerned about giving you broad information and not giving you the personal advice you need. You are young, you have health issues and a big portfolio of assets and I know nothing about your family situation, dependants and so on. So while I suspect selling a property may be the way to go, I don't have any idea of purchase prices, potential capital gains tax and so on. Clearly you have ample assets but not enough savings and you will need your home repaired, your mortgage paid off and a cash flow strategy.

I am surprised a TTR pension is double what you pay now. All in all, I think you need a good fee-charging professional adviser. You could go to the Financial Planning Association website and search out a CFP-qualified adviser near you, or if you want to email me at *Money* I may be able to recommend someone in your area. It is just critical you get really good advice.

DO YOU NEED PAUL'S HELP?

Send your questions to:
Paul's Answers, *Money* magazine,
GPO Box 4088, Sydney NSW 2001 or
money@bauer-media.com.au.
Sorry, but Paul can't personally answer your questions other than in the Q&A column.

GETTY IMAGES

In choosing a property, Dean and Courtney should ...

Look for strong jobs growth

Q We are 28 and 27, earning about $100,000 and $50,000 a year. We have owned a two-bedroom unit in Sydney for about 18 months valued at roughly $600,000-$650,000 with a mortgage of about $450,000. We have over $25,000 in savings which will continue to grow as we look to afford to pay for our wedding this year (October) and a honeymoon. We plan to have one more holiday in 2017 and then our first child (roughly in the next three to four years).

We are both keen to buy an investment property, valued at no more than $300,000, in Queensland using the equity we have in our unit to pay the deposit. Is the timing right? From our research, we don't feel we would be out of pocket buying the unit as we would use our equity and most things will be tax deductible. But with a wedding and honeymoon on the cards we don't want to be chipping away at our savings. On the other hand, we don't want to miss an opportunity, with us potentially dropping down to one salary in the next three to four years.

A Hi guys, great to hear from you. Well done on saving and building such a good amount of equity at such a young age. These habits will set you up for a financially secure life.

I am no expert in property, in particular in Queensland. I have this boring view that if I am going to buy property I want to buy in an area where I know values in detail. Now you may well be Queenslanders and buying in an area you know well, which is fine, but please don't buy interstate property from a seminar sales group. This usually ends in tears.

If, though, as you say, you have done your research and you have spent time in Queensland looking at properties, then I am fine with the plan. Clearly the Queensland population is growing – just be careful to buy where there is not only population growth but jobs growth. Property prices do best when you buy in an area with great facilities such as health, schools, recreation, restaurants and good coffee. But, above all, you want genuine growth in decent jobs.

Hope the wedding goes really well. Send us a photo!

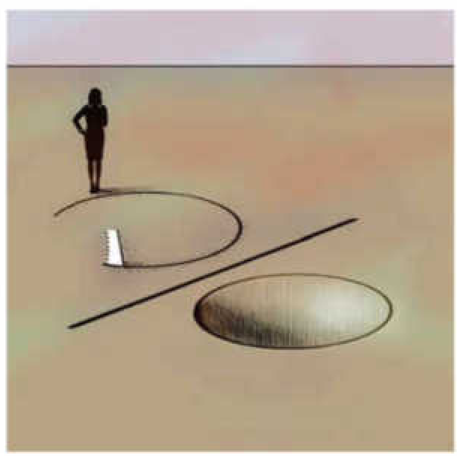
Keno's better option is to ...

Pay off the margin loan

Q I'm 26, working full time and earning $66,000 (including super). I have $12,000 in savings earning 2.8%, $25,000 in super and a share portfolio worth about $60,000. The share portfolio is currently under a margin loan of about $45,000 with interest payable of 7.4%. I have no other debt. I'm able to save $1000 to $1500 a month after all expenses. I'm contemplating putting the money into the margin loan (thus reducing the deductible interest) or in my savings account. Any thoughts?

A Here we can let the numbers give us the answer. Your savings are paying 2.8% and you'll pay around 35% tax on this, so your real return is some 1.8%. Now we look at your loan at 7.4%. I guess dividends are about 4%, so the real cost of the loan is some 3.4%. This is deductible at your rate of tax on the top part of your income so, again, about 35%. So the money is costing you 3.4% less 35%, or some 2.2%.

So the numbers are clear: you would be better off paying off your loan, even though the interest is tax deductible. Mind you, I have guessed your dividends, so do check these, but the principle is very clear.



It's time for Helen to ...

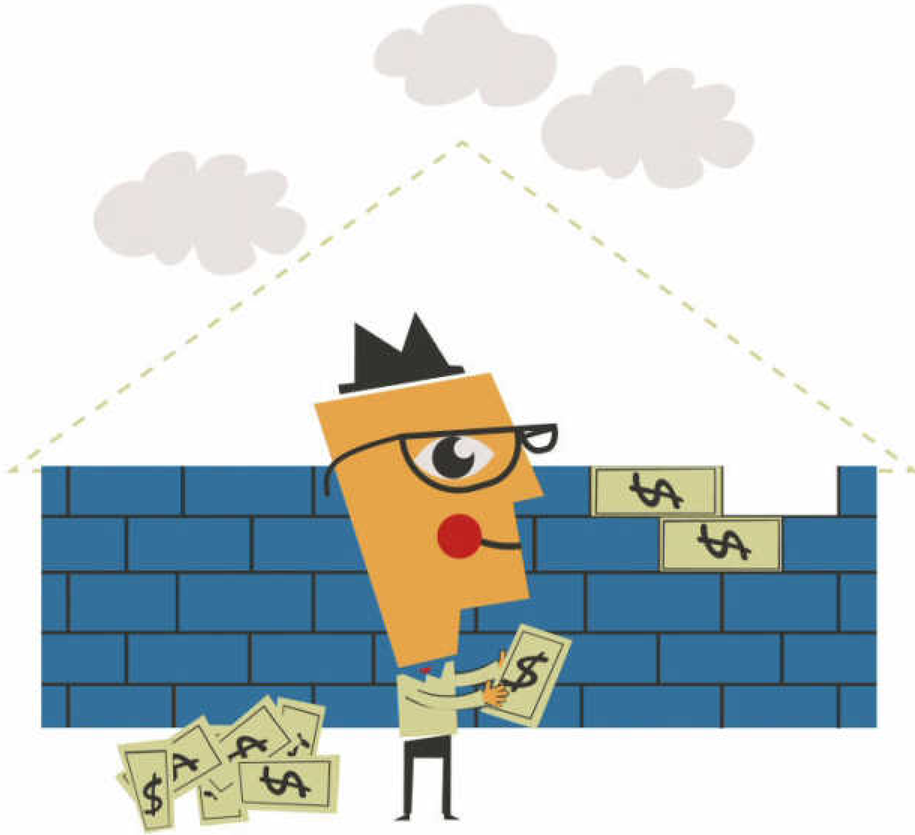
Pause and consolidate

Q I am 35 and my husband is 38. We have two young children (two and four). I earn $113,000 working part time while my husband works full time earning $170,000. Our primary residence is worth $750,000 ($400,000 mortgage). We contribute an extra $850 a month. We have two investment properties worth $1,117,000 ($876,000 mortgage). Our super balances are $100,000 and $200,000 respectively, all in growth portfolios. We are covered for income protection, TPD and trauma. We are in a position where we have $1700 surplus cash each month, and I am not sure how best to utilise it.

Ideally we'd love to retire in our 50s but am conscious of increasing life expectancy. Should we put the surplus cash into our home loan? Gear into more property? Gear into shares?

A Call me conservative but with $1.1 million of deductible debt and a $400,000 mortgage, I think it is time for you to pause and consolidate. You are well leveraged for economic growth. Despite my long-term view for Australia being very good, with your current debt, two young kids and a good exposure to property and shares via super, my belief is you would be well advised to reduce your mortgage rapidly, then look at other options.

Conservative, yes – and risk is your call, not mine – but you are so well positioned that I'd like you to protect all the hard work you have done and get rid of some non-deductible debt such as your mortgage.



Sai's best way to provide an education is to ...

Buy a home and reduce debt

Q I am a 40-year-old immigrant. I migrated five years ago with almost nothing. I earn $160,000 a year. So far I have saved around $50,000 as a deposit to buy a house in the near future. I have $60,000 in super as well. I have an asset overseas probably valued at $40,000. I have a car loan of $13,000 and a personal loan of $5000. My son is in primary school and I am the only one working. My concern is about saving towards my son's education, building assets and retirement. I would appreciate your advice about my focus area in the coming years. How should I diversify my portfolio? How can I save towards my retirement?

A Sai, what a terrific story! Like so many Australians I arrived here from somewhere else, in my case England, with my dad, mum and sister back in 1963 when I was eight years old. My dad was a doctor so we had, I suspect, a bit more financial back-up than you did when you arrived. But Australia has been just a terrific place for us to grow up, be educated and earn a good living, as you are.

Providing you live in a growing area of Australia, and with our rapid population growth, that is most of it! I am very keen for you to buy a property of your own. You are earning a really good salary, have a good deposit building up, and the property market has slowed, which will help you.

So right now I would focus on buying a home. You are building super, presumably from compulsory super, which is terrific. I feel that by saving, buying a home and reducing debt, with your income educating your son can be handled from your income each year.

Sure, you could save for education separately but I don't really see the point in your case. It is about maximising your family's wealth and that will provide the financial security to fund his education.

GETTY IMAGES

TRAVEL

Destination: Authentic Paris

Five things to do

1. Just walk. Long queues at the Louvre, crowded boats on the Seine, restaurants with tourist menus – who wants to hang out with other visitors when you can see the real side to the city? Discover charming shops and great food and get a sense of the unique Parisian lifestyle.

2. Paris Off Beat. Walk around one of Paris's many hidden corners with Ludovic Yken. There are many great local tours. Let Ludovic show you his favourite cafes, bars and patisseries. He will even customise your tour to suit your tastes and budget. He gives you plenty of tips for the rest of your journey. €27 ($43) for a 90-minute tour.

3. Share a meal with locals. When you book with vizeat.com you can choose a meal and talk to your host. All cuisines and dietary requirements are catered for. From €7. Or join Jim Haynes, who has been hosting Sunday night dinners to connect people from all around the world for 30 years. See Jim-haynes.com.

4. Jardin du Luxembourg. Take your book and sit in the 17th century gardens just off the Latin Quarter. On the weekends Parisians leave their apartments to spend time in the park. Drop in at Paris's first art museum, the Musee du Luxembourg, opened in 1750.

5. Stay in an Airbnb property. Paris has 10,000 Airbnb hosts. I recommend staying in one of the classic Haussmann buildings, shopping at the markets and avoiding the obscene cost of Parisian hotels. I found a quiet studio in St Germain with a tiny kitchen and hospitable neighbours. SUSAN HELY

Cafe culture ... see the real side of Paris, top; the more tranquil Jardin du Luxembourg.

WINE SPOTLIGHT

2013 Haselgrove 'First Cut' Cabernet Sauvignon $15

Although Haselgrove has been around in McLaren Vale for over 30 years, its wines have never been better. Best of all, the budget-priced First Cut label – especially this cabernet, the shiraz and the grenache shiraz blend – offer excellent value. The cabernet sauvignon is made with approachability in mind. There's just a hint of oak: it is given a year in barrels, only 10% of which are new. The 2013 First Cut cabernet is rich and concentrated with blackcurrant and dark cherry flavours, impressive purity of fruit and a fine, gentle finish. Drink soon with your mid-week bangers and mash.

SPLURGE

2012 Wolf Blass 'Black Label' Cabernet Shiraz $130

The latest release of this iconic Aussie red is a beauty. As it's the 40th vintage, Wolf Blass showed a range from the past to illustrate its quality, including Jimmy Watson winners from 1973 (wonderful velvety texture and marvellous complexity), 1975 (mature yet powerful and plush) and 1998 (brooding, briary, youthful, opulent, sheer class). The 2012 Black Label is up with the finest: gently aromatic with sumptuous, fleshy texture, blackcurrant, mulberry and brambly flavours, balanced and seamless. Well cellared, it will provided drinking enjoyment for at least 20 years. PETER FORRESTAL

GETTY IMAGES

DRIVING PASSION

Class of 2016 raises stakes

New SUV arrivals boost appeal for families

Reasons to choose a sports utility vehicle in 2016 include the all-new Kia Sportage and Hyundai Tucson and the thoroughly updated Toyota Rav4. Not that the average Australian family needed much more convincing – the segment experienced another boom last year. Full-year SUV sales accounted for 35.4% of the market in 2015, up from 31.7% the previous year. Considering passenger cars of all other shapes and sizes make up 44.6% of sales, that's a big figure.

The more grown-up fourth-generation Sportage is the newest of the new, and it and the whole Kia stable look set for an equally big year in 2016. Its Korean classmate, the Hyundai Tucson, which replaced the ix35 SUV last year, is likely to have a similar effect on the brand's sales. Meanwhile, the Toyota Rav4 – with popular players the Mazda CX-5 and Nissan X-Trail – already features in the sales chart's top 10. The Japanese maker is a long-time bestseller in Australia and the updated, more refined Rav4, which arrived late last year, will almost certainly be a cornerstone in the continuing fortunes of the company. JAMES WHITBOURN

$28,990-$45,990

Kia Sportage

There's much to like, from the petrol front-wheel-drive Si up to the turbo-diesel all-wheel-drive Platinum. $1000-1500 less costly than rivals for the entry-level automatic.

Pros: Solidity, refinement and comfort; terrific locally tuned handling; torquey turbo diesel; seven-year, unlimited kilometre warranty.

Cons: 2.0-litre petrol lacks the flexibility (and direct fuel injection technology) of the 2.4 petrol.

kia.com.au

$27,990-$49,490

Toyota Rav4

The changes for the new Rav4 read like a wish list for anyone who owned its predecessor, with improved comfort and handling, extra active safety, a nicer interior and an exterior restyle.

Pros: Roomy interior and cargo bay; rides well in its native environment (on road).

Cons: You need to buy the top-level Cruiser to get leather trim; active safety technology only in Cruiser, or as a $2500 option.

toyota.com.au

$27,990-$45,490

Hyundai Tucson

The Tucson, like the Kia Sportage, wraps value, equipment, space, comfort, safety refinement and driver appeal in a good-looking family package.

Pros: Nice looking; spacious, comfortable cabin; terrific turbo diesel; turbo petrol and dual-clutch automatic an appealing combination in great-value Elite.

Cons: The entry-level 2WD Tucson is 2.0L non-turbo only.

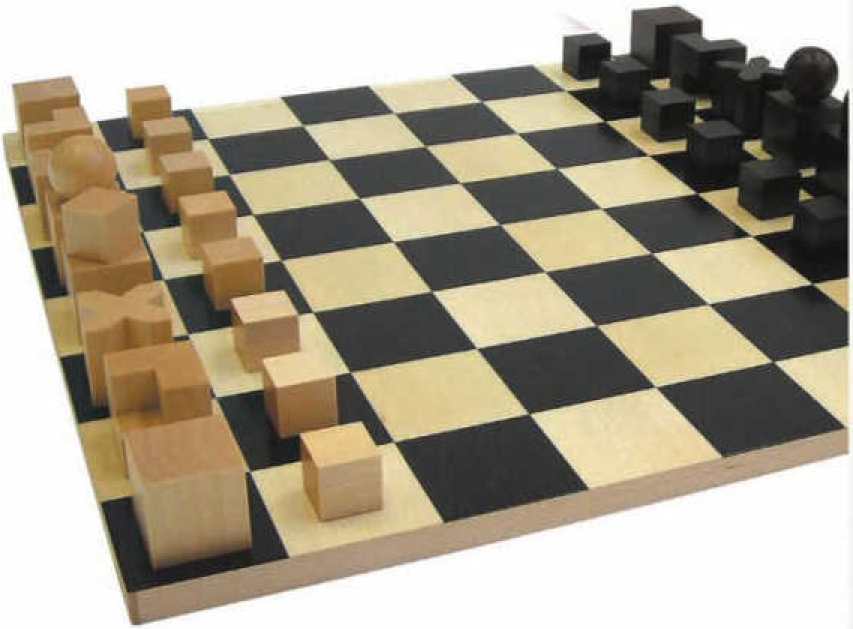
hyundai.com.au

EXTRAVAGANCE

Fit for a king

Originally designed in 1923, the geometric shapes in this Bauhaus chess set visually represent the moves allowed by the various pieces.

Where to buy:
top3.com.au
How much:
$790



WEBFIND

ThisIsVest.com

An Aussie version of Product Hunt.com, this site lists the highest-trending Australian start-ups as rated by the start-up community, giving investors and users a gateway to home-grown technology.

Steph Nash

SMART TECH

Smarten up your dumb old telly

Bring games and apps to your living room

Mobile technology has developed in leaps and bounds but, strangely, inside the house the evolution of home-based tech has been slower to take off. In the living room, an emerging category of set-top boxes, perhaps most successfully realised by Apple TV, has enabled people to turn their sets into smart TVs relatively inexpensively, streaming content from the web to their large screen. Apple TV has had a big update, resulting in a much more powerful model that effectively puts a full games-playing and app-running computer under your TV.

But Google is also a contender in the living room. For years the search giant has released tech for your telly, albeit with mixed success. Chromecast is still its biggest hit, while Android TV seems to be misfiring much like the forgotten Google TV before it.

All the devices this month are good value but none seem fully realised yet. This category is still something of a work in progress but early adopters stand to have some fun. PETER DOCKRILL

What is it? Google Chromecast
How much? $49
Pros: There's a lot to love about Chromecast, which is still the cheapest and easiest way to enhance your telly. This little dongle slips inside a HDMI port and lets you "cast" content to it from your smartphone, tablet or computer. Movies, TV, music and more are all just a tap away.
Cons: Frustratingly, Google hasn't released Chromecast's latest, more powerful model in Australia yet. It's a good thing we like the original so much.
store.google.com

What is it? Asus Nexus Player
How much? $129
Pros: After ditching its short-lived Google TV platform, Google released Android TV, built into some smart TV sets (notably from Sony) and also available in standalone boxes such as Asus's Nexus Player. This is a more powerful unit than Chomecast, allowing you to run native apps and games in addition to casting content from elsewhere.
Cons: Sadly, despite the potential, Android TV still has very few apps and games that support it.
store.google.com

What is it? Apple TV (4th generation)
How much? From $269
Pros: Apple TV has wowed people for years with its intuitive interface. The latest model ups the ante (and the cost), fortifying the device with a full iOS-style computer that runs apps and games. It's a bit like turning your TV into a massive iPhone.
Cons: Remains to be seen whether future apps and games justify the expense. Add the cost of a gaming controller ($95) and you could buy a much more powerful games console.
apple.com/au

GIVE IT UP

OzHarvest cuts food waste

What is it? According to the OzHarvest website, between $8 billion and $10 billion worth of food is wasted each year in Australia – that's about four million tonnes of landfill. OzHarvest is a community-run organisation that collects and distributes commercial food waste to the millions of disadvantaged or homeless people around Australia. Every week, the service picks up surplus fresh food such as fruit and vegetables, meat, pre-prepared sandwiches and meals and unsold bakery goods, and delivers them to 500 charities.
Where your money goes: Since its inception in 2004, OzHarvest has delivered 41 million meals to the disadvantaged and saved 14,000 tonnes of food from going to waste. Every $1 donated to OzHarvest can deliver two meals to a person in need.
How to donate: OzHarvest relies on donations to operate. To donate, phone 1800 108 006 or visit ozharvest.org. While OzHarvest can't legally accept food offerings from a home or residence, if you have your own food waste to donate it can help you get in touch with local charities. STEPH NASH

COMPARE THE PAIR

Food processors

Gadgets do all the hard work

What is it?
Bellini Super Cook Kitchen Machine
How much? $499, Target
Info: The "generic" brand food processor has 13 cooking functions. It can steam, emulsify, puree, chop, grind, knead, whip, crush, powder and grate, among other things.

What is it?
Thermomix TM5
How much? $2089, thermomix.com.au
Info: The high-end processor claims to rep ace "more than 12" kitchen appliances. It can weigh, mix, chop, mill, knead, blend, steam, cook, beat, heat, stir and emulsify. It also displays digital recipes on screen.

Five years later, am I on the right track?

This is my second email after my first question was answered by you about five years ago when I was 24. I have just turned 30 and I am doing a master's degree in statistics part time. I have been working full time for Ambulance Victoria for the past four years. I earn $58,000pa after tax from my full-time work plus $15,000pa from casual jobs. I purchased a house in Doncaster East, Victoria, four years back for my mum and am living with her at the moment until I bring down the house debt. I have $313,000 debt left and expect to pay it back in full by 2021 at the current rate. Mum earns just enough to cover living expenses.

I have no credit cards or any other debt and own a car. I paid off my HELP for a bachelor's degree but started accumulating HELP debt again for my master's (currently $20,000). It is expected to be $42,000 by the time I graduate in 2017. The house is valued at $850,000 (purchased for $685,000).

I am wondering whether I should start salary sacrificing part of my salary into super or keep paying off the mortgage. I changed my super investment option to 100% shares. What is the best thing for me to do to plan for my future?

Simon

PAUL'S VERDICT: YOU HAVE MADE GREAT PROGRESS – KEEP IT UP

Salary sacrifice any spare money into super and make space for some personal life choices

Hi Simon, it's really nice to hear from you again. Congratulations on moving on to your master's – statistics is a tough one. You should be so proud of what you have done for your mum and I know she will be super proud of you. Buying a home and covering the mortgage while your mum uses her income for personal living expenses is really making her life a heck of a lot better. Good on you.

A $313,000 mortgage on a $850,000 property is comfortable given your income – you have a lot of equity. You mention you'll pay this off in 2021, only about six years away. I popped this into a calculator and came up with repayments of a bit over $5000 a month to clear $331,000 in six years. This is $60,000 a year, and I wonder if you have calculated this correctly? It is a big effort to save $60,000 a year for anyone and I don't think you would clear this amount from even both your jobs after tax.

Anyway, if you are clearing that mortgage quickly, even if not in six years, I really don't think you have any money worries. Owning the home, which will no doubt be worth well over $1 million by the time it is paid off, is a wonderful base.

Your HELP debt is of no concern to me. It is the lowest interest loan on the planet and only payable once your salary exceeds a set level. So let's put that aside.

If you have spare cash flow above your extra mortgage repayments, providing you do not need the money until retirement, I would be perfectly happy for you to salary sacrifice into super. This is done at a tax rate of 15% and the top part of your income is taxed at around 35%, including the Medicare levy. Not only would more money go into super than you would take home to put to your mortgage, as you have chosen the shares option in super you get the benefit of diversifying your money into an area other than property.

In terms of converting your super fund option to shares, here I am also in support. I appreciate your returns would not have been too flash in the past year but you will be investing for over 30 years. In my opinion, shares are decent value, having come well back from the highs of 18 months ago. So with a 30-year view, I do think it is a good time to be investing. In the short term I have no idea where prices will go but with a growing world population, growing global wealth and hence growth in demand for goods and services it is realistic to think that share values will grow over the decades as they have historically.

So I would like you to check that mortgage pay-off period and the size of the extra contributions you are making. Then I am fine with you topping up super, providing the money is not needed until retirement.

Since I heard from you some years ago, your salary has improved, you have built a lot of equity in your house and you are building super and completing a master's And you have maintained your good savings habits. Based on this, I can really only say, well done and keep it going.

Do make space, though, for life choices, such as developing personal interests and taking some holidays.

ASK YOUR QUESTION

If you have a question, email money@bauer-media.com.au or write to GPO Box 4088, Sydney NSW 2001. Questions need to be 150 words or less and you must be willing to be photographed. Readers who appear on this page will receive a six-month subscription.

EAMON GALLAGHER

RENT & INVEST

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Rentvesting can give you the dream lifestyle now and help you build a property portfolio, writes Ben Kingsley

A GROWING TREND AMONG property buyers is challenging traditional thinking about the great Australian dream of home ownership – a trend where early adopters are being rewarded financially when it comes to the buying-versus-renting decision.

It's called "rentvesting", whereby a person or family elect to rent where they want to live but still invest in property for their financial future. In simple terms, if you could afford to buy in a particular location and the mortgage repayments were $4000 a month, yet to rent a similar property in the same location cost $2000pm, then you would have a spare $2000pm to invest.

The goal would be to build a portfolio that grows in value and in the passive income it delivers but maintain your lifestyle by living where you want to live instead of where your budget says you should.

Rentvesting is a strategy that has emerged because of current property market pressures. Since the boom in Sydney and Melbourne and other popular locations, property prices have increased beyond the reach of many willing buyers. Yet renting in the same locations is within the budget of that same buyer.

It's fair to say that a decade or two earlier there were probably fewer high-value locations in our capital cities where most people couldn't afford to buy and the differentials between price and rent were not as high. And people were less likely to choose renting over buying unless they had to.

Now fast-forward to today, with a growing population and the fact that there is a finite supply of land in these – generally inner-city-developed areas. The lifestyle and its attractions – proximity to the city, beach and good schools – are difficult, if not impossible, to find elsewhere and prices have soared as a result of the strong demand.

> Property prices in popular locations have increased **beyond the reach of most Australians**

So rather than lowering their expectations about location and lifestyle – as life is too short – switched-on people are turning what many might see as a negative into a positive and benefiting from the best of both worlds: living where they want but also investing in property in other locations for the future.

For such people, rentvesting will be a compromise they can live with when it comes time to make the call between buying or renting.

But is the strategy simply a compromise or can it be even more – a smart, long-term wealth-creation strategy?

The pros

LIFESTYLE If it's too expensive to buy where you want to live, then you still have the option of renting. There are many reasons why you may want to live in a particular area: better schools, a safer neighbourhood, a bigger house, or proximity to lifestyle amenities and perhaps family.

WEALTH BUILDING Because you are saving on mortgage repayments and investing those savings into a portfolio of investment properties, you are not missing out on building a retirement nest egg.

COST SAVINGS Buying a home has high acquisition costs such as stamp duty and conveyancing and lending fees, which might include expensive lenders mortgage insurances (LMI) as well. A rule of thumb these days is that 6% of the cost will be one-off items – more if LMI is payable. So if you are buying an $800,000 house, expect these one-off costs to be more than $48,000, which you don't get back when you sell.

ALL CARE, NO RESPONSIBILITY For tenants, it's the landlord's responsibility to maintain the property. Any issues with the electricals, hot water, leaks, air-conditioning, building deterioration, inbuilt fixtures and fittings and worn items are the landlord's cost.

EASE THE BURDEN Your tenants and the tax office help out financially. Initially when you

GETTY IMAGES

When does rentvesting work?
In simple terms it works best when there is a good-sized differential between what it costs you to buy versus what it costs you to rent. So if buying costs 6% in interest and 1.5% of the property's value in holding costs – a total of 7.5% – versus renting at, say, 3.5% of its value, the differential is 4%. It's this differential that creates the financial benefit of rentvesting.

Who does it suit best?
It works well across all income ranges – as demonstrated in our case studies – but, because the tax benefits play a supporting role in assisting with initial cash flow and therefore holding costs, the higher the tax rate paid by the investor, the better the strategy works.

What are the best locations?
It's not a strategy that works well if the differential between buying and renting doesn't clearly exist. In other words, it's not a strategy recommended in locations where buying the home would be roughly the same cost as renting in that area. It usually works best in higher-value areas close to the major capital cities, as this is where large differentials between the buying and renting costs are found. And if you think about that logically, if properties in these locations were affordable to all, this differential wouldn't exist. But I don't know anywhere in developed economies and cities around the world where you can find cheap housing close to major capital cities. [And note that our model assumes a slower rate of growth for rents in these areas than for rent on the investment properties.]

An early advantage
In playing devil's advocate, you might be thinking that surely those who chose to buy the family home could at some point buy an investment property as well – and this is true. However, as clearly illustrated in the modelling, every time it might be possible for an owner-occupier to invest, the rentvestor is in a position to invest earlier, which would further increase the financial differential in the rentvestor's favour.

buy an investment property, the rent covers a portion of the loan repayments. Additionally, depending on how much you borrow, there might be a shortfall (loss) between the income you receive and the cost of running the property. When this occurs, the loss is subtracted from your other income, which reduces your overall tax bill in that year. Over time as the loan is paid down, the rental income becomes greater than your outgoings and, after you pay tax, the difference is passive income for you to enjoy or plough back into investment.

TAX BENEFITS With the investment property, you can claim depreciation on the building, plus the fixtures and fittings. This is in addition to your initial costs and will result in reduced tax.

GO WITH THE FLOW Because you don't have the high cost burden of buying (or selling, for that matter – up to 2.5% of the sale price), the world is your oyster. You can rent for a few years near the beach, then try inner-city living for a while or escape to the country. Renting gives you that flexibility and potentially a variety of accommodation types. Due to high buying and selling costs, it's not financially sensible to do this as an owner.

The cons

LOSS OF FULL CGT EXEMPTION This is one issue that doubters might raise. Your own home is regarded, from a tax perspective, as your principal place of residence and this carries a full exemption from any tax liability if you sell the property for a profit. On the other hand, if a rental property is sold for profit a portion will go towards capital gains tax. This amount varies subject to how much profit is made, the overall income in that tax year and how long you owned the property before selling it. Obviously, if you don't sell it no capital gains tax is payable.

EMOTIONAL COST Many of us grow up dreaming of one day buying a property and making it into our home where we can add personal touches. In a rental property you need the landlord's permission if you want to change anything substantially.

LOSS OF CONTROL A major frustration when renting is finding a suitable place and then moving in all your belongings. It's even worse if the landlord decides you must move out. It's their property and they have ultimate control over it.

PEER PRESSURE Residential property is the domain of the owner-occupier: they own about 70% of the market. So as you get older and more "responsible" the pressure builds on you to buy a property of your own even if you can't really afford it or you have to settle for one that's not completely suitable or is in an area you don't like. And when you do buy, you do your very best to convince yourself, family and friends that it was the right decision.

"RENT MONEY IS DEAD MONEY" I've included this point as a con because if someone decides to rentvest but doesn't get around to actually investing or only puts away some of the savings, the strategy won't work. The key is to invest that surplus money, otherwise it is likely you would have been better off financially with the buying-to-live-in option.

When it comes to decisions about our living circumstances, personal and traditional preferences will play a part. But so too should the financial implications of a choice. To illustrate this, on the following pages we have set up three real-life scenarios that compare buying to live in with renting and investing.

Ben Kingsley is the CEO of Empower Wealth, a specialist property advisory firm. He is the chair of the Property Investment Professionals of Australia, co-author of the Armchair Guide to Property Investing *and co-host of* The Property Couch *podcast.*

COVER STORY

The pay-off: $250,000

Young people who lack a big deposit can still get a foothold in an expensive property market

CASE STUDY 1

NAME: STEVE, 25; $64,000pa

SITUATION: CAN'T AFFORD TO BUY IN INNER CITY

STRATEGY: RENT INCOME WILL BOOST BORROWING POWER FOR FIRST-TIME BUYER

MEET STEVE – HE'S 25 years old. His financial situation looks like this: Steve lives at home with his parents, which has allowed him to save a decent deposit. He's had a good run at home but now his parents are looking to move onto the next stage of their lives and are considering downsizing.

He is considering his options for entering the property market – as a first-time own-home buyer or whether to join the growing movement of "rentvestors".

He's keen to live near the action and like-minded young people. This means he wants to be close to the beach, city and lifestyle of inner Melbourne which, like any modern and large city around the world, isn't cheap for property buyers. His initial research has shown him that to buy the type of property he wants it could cost him more than $700,000. If he had a mortgage of $665,000 at 6%, his repayments would be almost $40,000 a year – and that would just be the interest without paying off any principal.

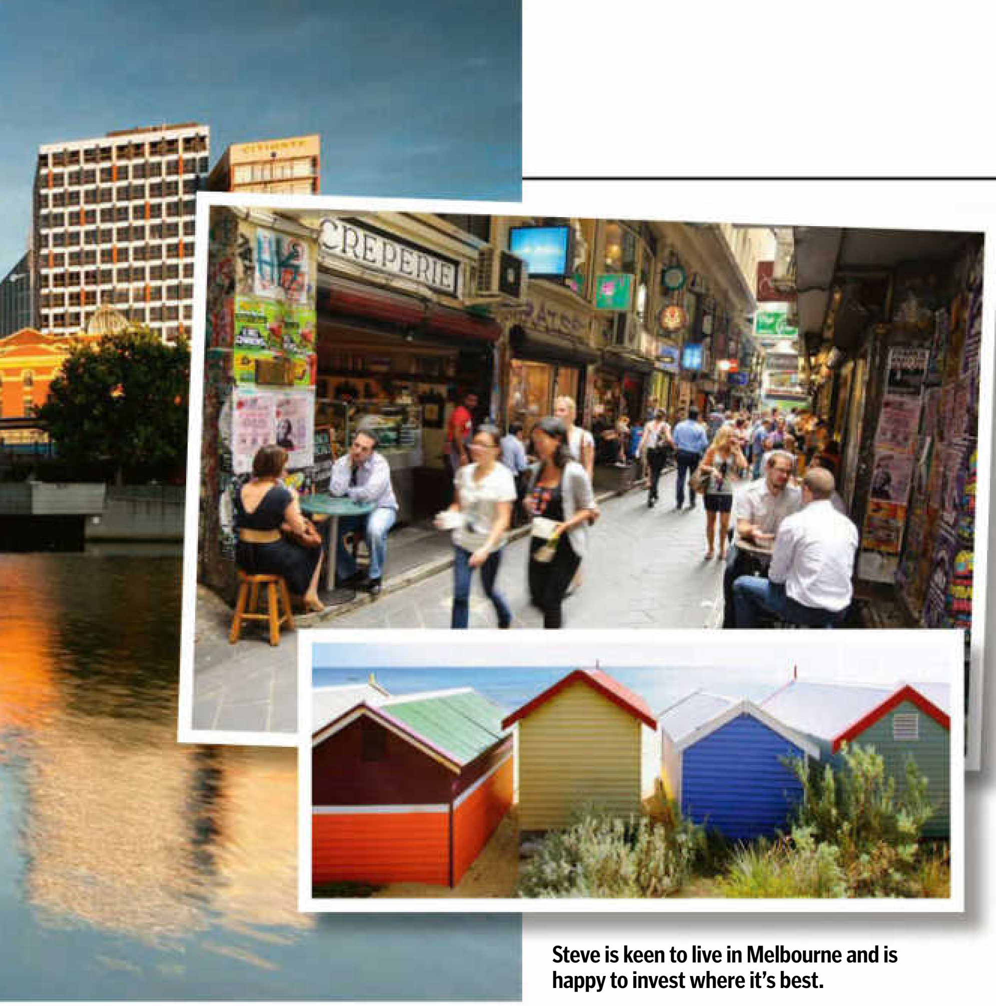
Interestingly, similar properties he is looking at (two-bedroom apartments) are being rented for $24,000 a year. So if he and a flatmate shared, his rent would be $12,000, or less than a third of what it would cost him to service the interest if he tried to buy and didn't take in a renter to help him with the mortgage.

And disappointingly for Steve, even if he wanted to buy, the reality is that his maximum borrowing power – based on his income and living expenses – is limited to about $310,000. If he uses most of his savings as a deposit and towards the buying costs, his maximum purchase price is $350,000. His budget simply

STATE OF PLAY

	BUY TO LIVE IN	RENT-VESTING
Gross wages	$64,000	$64,000
Living costs	-$22,200	-$22,200
Savings & gift	$60,000	$60,000
Purchasing power	$350,000 (wages only)	$425,000 (wages + rental)
Buying costs	$13,450 (FHB benefit)	$37,500 (LMI)
Mortgage	$304,500 (87% LVR)	$403,750 (95% LVR)
Surplus cash	$1050	$1250
AFTER PURCHASE		
Outgoing rent		$12,000 (share apt)
Gross rental income		$19,550 (5% yield, 92% occupancy)
Rates, upkeep	-$5250	-$6400
Property mgmt (7.7%)		-$1500
Loan repayments (6% interest-only)	-$18,270	-$24,250
Depreciation claimed		$3450pa (for 20yrs)
Income tax payable	-$13,500	-$8050 (after dedns)
Surplus cash	$5500	$10,050

GETTY IMAGES



Steve is keen to live in Melbourne and is happy to invest where it's best.

WHERE TO INVEST

Ascot, Queensland
- median unit price $425,000
- current gross yield 4.8%pa

Charnwood, ACT
- median house price $420,000
- current gross yield 5.2%pa

East Brisbane, Queensland
- median unit price $400,000
- current gross yield 5.0%pa

won't allow him to buy where he wants to live or the type of place he wants.

However, if he rentvested he could use the rental income from the investment property he buys, in addition to his wages, to boost his borrowing power. In fact, based on this scenario, his maximum borrowing power would be in excess of $500,000 and the only issue that limits his purchasing power is how much deposit he has available, because lenders won't lend more than 95% as a loan-to-value ratio for an investment purchase. Therefore, it is the size of Steve's deposit that will limit him to buying an investment property around the $425,000 price point. Even so, this option from a financial view point is worth considering.

Let's take a look at the numbers in the tables and compare the two options he is considering.

What jumps out after the initial purchase is the cash flow story for the rentvestor. The rental income, combined with the lower tax and depreciation, means Steve is able to hold a higher-value asset yet still have solid cash flow of more than $10,000 a year.

Looking 10 years into the future we see the financial differences starting to appear: combining all the benefits – the rent he earns is more than the rent he pays, the tax benefits of investing and the interest saved by putting the $5400 surplus cash generated into his offset account – gives him a positive difference of $51,300 (if he continues to share his rent).

Furthermore, the investment property is now funded 100% by the tenant and is generating net passive income to the tune of $10,850 and will continue to increase. At this point it's worth pointing out that this surplus cash flow would accommodate another investment property purchase and the compounding effect of such a strategy could reap even greater wealth returns. But for the purposes of this exercise, we have modelled just the single investment property.

In terms of his overall net property wealth position he's $86,350 better off, when you combine both his cash assets and the appreciated property value. Interestingly, this is even though he borrowed more initially to invest.

COMPARING FUTURES

	BUY TO LIVE IN	RENT-VESTING
AFTER 10 YEARS		
Gross wages	$86,850	$86,850
Living costs	-$37,750 (incl prop costs)	-$30,550
Outgoing rent (5%pa)		-$19,850 (share apt)
Gross rental income		$35,000
Rental property expenses		-$11,250
Mortgage interest (with offset benefit)	-$10,200	-$12,900
Income tax payable	-$18,100	-$21,050
Surplus cash	$20,800	$26,200
Savings in offset acc	$125,250	$176,550
Net mortgage debt	$179,250	$227,200
Property value (@ 6%pa)	$626,800	$761,100
Net worth (excl super)	$447,550	$533,900
AFTER 20 YEARS		
Net property income		$46,350
Surplus cash	$41,650	$48,450
Savings in offset	$143,650	$153,400
Net mortgage debt	none	none
Property value	$1,122,500	$1,363,000
Net worth (excl super)	$1,266,150	$1,516,400

Income and expenditure indexed at 3%pa

If Steve stays this course for 20 years the numbers look even more appealing.

It's true that 20 years is a long time and a lot can happen that could alter this result. In both scenarios he would have been in a position to buy additional properties. Alternatively, he may have decided to increase his rent to have his own place rather than have a flatmate. Steve could have met his future life partner and started a family, which could have resulted in the sale of whichever property he decided to buy. All that said, when comparing his buy versus rentvest decisions, it's important to consider the financial impact. At 20 years the positive cash flow could be a healthy $46,350 a year and growing.

When you combine the forecast property value increase and his cash assets, Steve would be better off financially to the tune of over $250,000 over 20 years if he rentvested. This is serious food for thought for any younger person considering their property future.

The pay-off: $1.1 million

Upgraders who leverage the equity in their family home to buy more properties can achieve a huge increase in wealth

CASE STUDY 2

NAME: GREG & SUE, 37; $190,000pa

SITUATION: NEED BIGGER HOME FOR A GROWING FAMILY

STRATEGY: HOME BECOMES INVESTMENT AND TWO MORE PROPERTIES BOUGHT

WHERE TO INVEST

Centennial Park, NSW
- median 1-bed unit price $515,000
- current gross yield 4.5%pa

Chisholm, ACT
- median house price $505,000
- current gross yield 4.5%pa

Southport, Queensland
- median house price $515,000
- current gross yield 4.5%pa

GREG AND SUE ARE BOTH 37 and have two kids under 10. As in many households, they are grappling with the decision to upgrade the family home, as their kids are getting older. Although they don't mind where they live, they have always dreamed about a bigger home in a better suburb. They are both back in full-time work as their kids are well-settled in school now. They have done their numbers and the family budget can afford an upgrade costing up to about $1.6 million. What's also being factored into their decision is the location they are looking at, because it's within the school zone of a great high school where they want to send their kids.

If they opted to sell their current home for $900,000 and buy for $1.6 million, they are looking at a home loan of $1.14 million, which they would service with their after-tax incomes. But if they rentvested, they could turn their current home into an investment property and afford to buy two more investment properties, each worth $500,000 – one in NSW and one in Queensland. Such a move would give them a property investment portfolio of $1.9 million and will generate increasing rental income and grow in value over time.

GETTY IMAGES

Greg and Sue have always dreamed of living in a bigger and better suburb.

STATE OF PLAY

	BUY UPGRADER	RENT-VESTING
Gross wages	$190,000	$190,000
Living costs	-$45,000	-$45,000
Mortgage payment	$28,350	$28,350
Suplus cash	$66,200	$66,200
Value of family home	$900,000	$900,000
Net equity	$570,000	$570,000
Savings in offset acc	$15,000	$15,000
Purchasing power	$1,600,000 (wages only)	$1,900,000 (wages + rental)
Buying costs	$80,000	$40,000
Home sale (net)	$547,500	
Mortgage(s)	$1,140,000 (71% LVR)	$1,370,000 (72% LVR)
Surplus cash	$22,500	$15,000
AFTER PURCHASE		
Outgoing rent		-$40,000
Gross rental income		$70,400 (4.5% yield, 92% occ)
Rates, upkeep	$16,000 (+$7000)	$28,500 (1.5%)
Property mgmt (7.7%)		-$5400
Loan repayments (6% interest only)	-$68,400	-$82,200
Depreciation claimed		$13,350pa (for 20yrs)
Income tax payable	-$50,650	-$29,650 (after dedns)
Surplus cash	$23,200	$43,200
Value of property(ies)	$1,600,000	$1,900,000

Let's compare the two options.

In addition to the points highlighted in Steve's case, in Greg and Sue's scenario the upgrade to a $1.6m property would result in higher holding costs, such as rates, expenses (for example, insurance) and greater wear and tear on a bigger home. However, the rentvestor doesn't have to worry about these costs as they convert to an investment expense and will be covered in the 1.5% upkeep allocation that has been provisioned. And their cash benefits to the tune of the $9000 upkeep costs they previously paid.

The rentvesting strategy appears highly favourable for Greg and Sue just looking at the 10-year snapshot. There are a couple of reasons for this. First, they retain their original home and convert it into an investment property, which is cash flow positive almost immediately, as the existing debt is only $330,000. Second, the total asset value differential of $300,000 has had a significant impact on value growth and has given them greater rental income.

At 10 years their investment properties are generating net passive income of $42,500, all funded by their tenants. This also means the tax payable is higher on the rentvestor side of the ledger. In terms of overall net property wealth, they are significantly better off by more than $500,000.

When the numbers are revisited at 20 years, they are certainly compelling. Surplus cash flow being generated is $18,050 higher each year; cash on hand is $167,100 higher with no outstanding debt for either option; and, finally, the overall combined net worth is a staggering $1,129,250 higher.

COMPARING FUTURES

	BUY UPGRADER	RENT-VESTING
AFTER 10 YEARS		
Gross wages	$258,550	$258,550
Living costs	$71,700 (incl prop costs)	-$49,650
Outgoing rent (5%pa)		-$66,500
Gross rental income		$126,300
Rental property exp		-$48,050
Mortgage interest (with offset benefit)	-$35,070	-$35,750
Income tax payable	-$68,050	-$80,400
Surplus cash	$83,700	$104,450
Savings in offset acc	$517,950	$726,550
Net mortgage debt	$622,050	$643,450
Property value (@6%pa)	$2,865,350	$3,402,600
Net worth (excl super)	$2,243,300	$2,759,150
AFTER 20 YEARS		
Net property income		$157,250
Surplus cash	$159,600	$177,650
Savings in offset acc	$658,400	$825,500
Mortgage debt	none	none
Property value	$5,131,400	$6,093,550
Net worth (excl super)	$5,789,800	$6,919,050

Income and expenditure indexed at 3%pa

The pay-off: income for life

A single parent can make the most of modest assets to fund her son's education and achieve financial independence

CASE STUDY 3

NAME: JENNY, 39; $72,000pa

SITUATION: SINGLE MOTHER REBUILDING HER LIFE

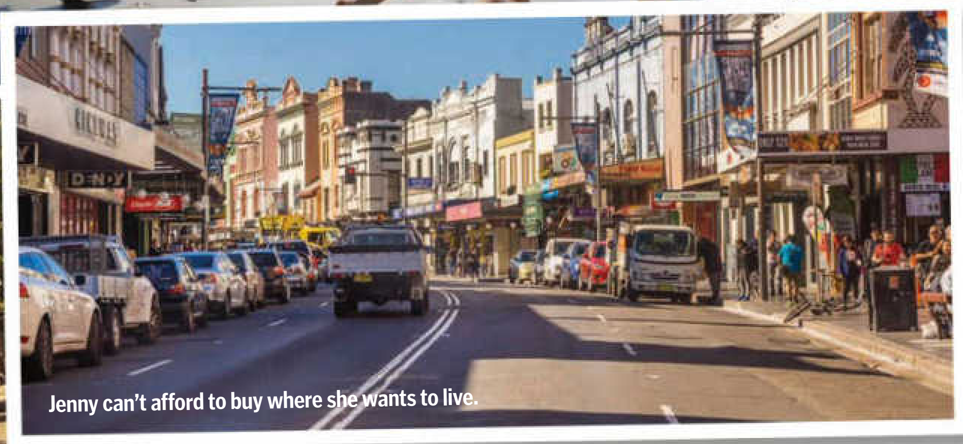
STRATEGY: USE DIVORCE SETTLEMENT TO LAUNCH PORTFOLIO

JENNY IS A 39-YEAR-OLD schoolteacher with a son, Sam, who is 13. She has recently received a settlement from her divorce and is looking at her options to rebuild her financial position. Jenny knows that on her single income she cannot afford to buy in the area where she and her son have lived for the past 10 years, but she doesn't want to leave her network of friends nor does she want to impact on Sam's important next few years of education by moving him to a new area and school.

In deciding to rentvest Jenny is playing the long game. She understands that although she needs to provide for herself and her son now, she doesn't have the benefit of a two-income household. She needs to invest to build her wealth base so she doesn't have to rely on a small government pension in retirement. Although Jenny's relationship didn't last, the property she and her partner owned and then sold as part of the financial settlement performed well and has left her with a nice amount of money to start her rentvesting journey.

STATE OF PLAY	
Gross wages	$72,000
Living costs	-$27,000
Outgoing rent	-$23,400
Income tax payable	-$16,400
Surplus cash	$5200
Divorce settlement	$450,000
YEAR 1	
Buy properties 1 & 2	2 x $400,000
Capital growth	5.5%pa
gross rental yield	5.5%
Occupancy	92%
LVR	60%
Mortgage interest	6%pa
YEAR 2	
Buy property 3	$250,000
Capital growth	4%pa
gross rental yield	6.5%
Occupancy	92%
LVR	63%
Mortgage interest	6%pa

GETTY IMAGES



Jenny can't afford to buy where she wants to live.

WHERE TO INVEST

Kuluin, Queensland
- median house price $420,000
- current gross yield 5.6%pa

Palm Cove, Queensland
- median unit price $260,000
- current gross yield 6.5%pa

Spring Hill, Queensland
- median unit price $420,000
- current gross yield 5.5%pa

In the earlier case studies we looked at the financial gain of one period of investing and then the 10- and 20-year snapshot results. For Jenny, we look at how she can build a portfolio of three investment properties in the next couple of years and check in at the 10- and 20-year intervals to measure her progress.

Jenny's $450,000 financial settlement is a great springboard. Jenny is conscious that her status as a single parent doesn't bode well for her borrowing power. Her goal is to build passive income to support her and her son down the track.

With this in mind, the loan-to-value ratio goal is set at 60% for the first two purchases, which will reduce the interest cost and, once depreciation benefits are added in, these properties are close to supporting themselves through the rental income they generate.

The first two purchases are set at $400,000 and she is aiming for a "balanced" return with the targets for capital growth and gross rental yield both at 5.5%. These properties will be bought immediately and can be found in the suburbs of one of many Australian capital cities.

These buys will be following by a final purchase in 2017: a third property to the value of $250,000. This is an entry-level investment focused on a high yield return of 6.5% and a capital growth of only 4% a year. These types of property are found in our mid-sized regional towns (outside the mining centres) that have sound, diverse economic drivers.

On completion of the third property purchase Jenny's debt peaks at just over $638,000 but, given the strategy she has adopted, her portfolio is slightly positively geared from day one and over time will start to generate significant cash flow, as noted in year 10 ($23,650) and year 20 ($52,300).

In fact, her portfolio is forecast to be debt free by early 2039 when she is 62. So Jenny will then enjoy all the passive income being generated from her portfolio, plus the appreciation in its value over this period.

Jenny has a solid plan here to not only survive as a single mother but to look forward to being financially independent and setting up herself and her son for life.

PREDICTION

	AFTER 10 YEARS	AFTER 20 YEARS
Gross wages	$96,750	$131,350
Living costs	$37,150	$49,900
Outgoing rent (5%pa)	$38,750	$63,100
Gross rental income	$91,300	$150,850
Rental property exp	$28,250	$40,150
Mortgage interest (with offset benefit)	$30,050	$7750
Income tax payable	$31,150	$69,000
Surplus cash	$23,650	$52,300
Savings in offset acc	$189,050	$548,250
Net mortgage debt	$511,950	$152,750
Property value	$1,736,600	$2,882,000
Net worth (excl super)	$1,224,650	$2,729,250

Income and expenditure indexed at 3%pa

LIFESTYLE SUBURBS: YOUR RENT BUYS MORE THAN YOU COULD AFFORD

SUBURB	STATE	TYPE	MEDIAN PRICE	MEDIAN RENT (PM)	MONTHLY MORTGAGE PAYMENT[1]
Campbell	ACT	U	$1,000,000	$1300	$5096
Hughes	ACT	U	$771,000	$1127	$3929
Abbotsford	NSW	H	$1,955,000	$3423	$9963
Ashfield	NSW	H	$1,397,500	$2643	$7122
Banksia	NSW	H	$1,138,888	$2643	$5804
Bexley North	NSW	H	$1,200,000	$2470	$6115
Carlingford	NSW	H	$1,250,000	$2513	$6370
Carlton	NSW	H	$1,192,500	$2557	$6077
Castle Hill	NSW	H	$1,310,000	$3033	$6676
Chatswood West	NSW	H	$1,495,500	$3402	$7621
Concord	NSW	H	$1,715,000	$3033	$8740
Denistone	NSW	H	$1,535,000	$3033	$7823
Drummoyne	NSW	H	$1,752,500	$3467	$8931
Dulwich Hill	NSW	H	$1,323,500	$3120	$6745
Earlwood	NSW	H	$1,250,000	$2817	$6370
Eastwood	NSW	H	$1,520,000	$2914	$7746
Five Dock	NSW	H	$1,504,000	$3250	$7665
Gladesville	NSW	H	$1,639,000	$3272	$8353
Glebe	NSW	H	$1,485,000	$3293	$7568
Greenwich	NSW	H	$2,195,000	$4333	$11,186
Haberfield	NSW	H	$1,900,000	$4008	$9683
Hornsby	NSW	H	$1,100,000	$2600	$5606
Kingsford	NSW	H	$1,860,000	$3467	$9479
Lane Cove North	NSW	H	$1,650,000	$3727	$8409
Lewisham	NSW	H	$1,375,000	$3250	$7007
Maroubra	NSW	H	$1,635,000	$3683	$8332
Melrose Park	NSW	H	$1,340,000	$2600	$6829
North Ryde	NSW	H	$1,412,000	$3012	$7196
North Strathfield	NSW	H	$1,687,500	$3250	$8600
Parramatta	NSW	H	$1,090,000	$2167	$5555
Putney	NSW	H	$1,903,000	$3467	$9698
Randwick	NSW	H	$2,100,000	$4550	$10,702
Rodd Point	NSW	H	$1,830,000	$4008	$9326
Russell Lea	NSW	H	$1,665,000	$3510	$8485
Ryde	NSW	H	$1,419,000	$2817	$7231
Strathfield	NSW	H	$2,114,500	$3120	$10,776
Summer Hill	NSW	H	$1,460,000	$3023	$7440
West Ryde	NSW	H	$1,350,000	$2600	$6880
Zetland	NSW	H	$1,504,000	$3423	$7665
Kangaroo Point	QLD	H	$905,000	$2492	$4612
South Brisbane	QLD	H	$1,220,000	$2167	$6217
West End	QLD	H	$1,000,000	$2600	$5096
Henley Beach South	SA	H	$802,000	$2264	$4087
Hyde Park	SA	H	$1,150,000	$2448	$5861
Unley	SA	H	$1,000,000	$2102	$5096
Albert Park	VIC	H	$1,540,000	$3250	$7848
Albert Park	VIC	U	$857,500	$1820	$4370
Alphington	VIC	H	$1,198,000	$2817	$6105
Armadale	VIC	H	$1,830,000	$3153	$9326
Ashburton	VIC	H	$1,416,250	$2080	$7217
Ashwood	VIC	H	$1,065,000	$1950	$5427
Balwyn	VIC	U	$777,500	$1701	$3962
Beaumaris	VIC	U	$870,500	$1950	$4436
Bentleigh	VIC	H	$1,142,500	$2383	$5822
Bentleigh East	VIC	U	$715,000	$1755	$3644
Black Rock	VIC	H	$1,640,000	$3889	$8358
Blackburn	VIC	H	$1,136,000	$1863	$5789
Box Hill North	VIC	U	$690,000	$1690	$3516
Box Hill South	VIC	H	$1,130,000	$1950	$5759
Brighton	VIC	H	$2,080,000	$4312	$10,600
Brighton East	VIC	H	$1,525,000	$3250	$7772
Bulleen	VIC	H	$1,037,500	$1907	$5287
Camberwell	VIC	H	$1,807,000	$3077	$9209
Canterbury	VIC	H	$2,400,000	$3683	$12,231
Canterbury	VIC	U	$888,750	$1993	$4529
Carlton North	VIC	H	$1,105,000	$2600	$5631
Caulfield South	VIC	H	$1,352,500	$2383	$6893
Chadstone	VIC	H	$880,000	$1820	$4485
Clifton Hill	VIC	H	$1,090,000	$2578	$5555
Doncaster	VIC	H	$1,150,000	$2080	$5861
Elsternwick	VIC	H	$1,370,000	$2708	$6982
Elwood	VIC	H	$1,420,000	$3250	$7237
Essendon	VIC	H	$1,050,000	$2015	$5351
Glen Huntly	VIC	H	$1,270,000	$2167	$6472
Hawthorn East	VIC	H	$1,575,000	$2719	$8026
Heidelberg	VIC	H	$985,000	$1950	$5020
Highett	VIC	H	$955,000	$2080	$4867
Hughesdale	VIC	H	$999,500	$1950	$5094
Huntingdale	VIC	H	$835,000	$1733	$4255
Ivanhoe East	VIC	H	$1,535,000	$2578	$7823
Kew	VIC	H	$1,990,000	$3402	$10,141
Kew East	VIC	H	$1,511,000	$2611	$7700
Macleod	VIC	H	$731,000	$1733	$3725
Malvern	VIC	H	$2,106,000	$3402	$10,733
Mckinnon	VIC	H	$1,339,000	$2470	$6824
Mckinnon	VIC	U	$790,000	$1863	$4026
Middle Park	VIC	H	$2,287,500	$3250	$11,658
Mont Albert	VIC	H	$1,825,000	$2936	$9301
Moonee Ponds	VIC	H	$995,000	$2167	$5071
Notting Hill	VIC	H	$750,000	$1733	$3822
Ormond	VIC	H	$1,169,000	$2578	$5957
Port Melbourne	VIC	H	$1,180,000	$2784	$6013
Prahran	VIC	H	$1,280,000	$2557	$6523
Rosanna	VIC	H	$882,500	$1863	$4497
St Kilda East	VIC	H	$1,155,000	$2600	$5886
Surrey Hills	VIC	H	$1,680,000	$2535	$8562
Surrey Hills	VIC	U	$760,000	$1733	$3873
Templestowe Lower	VIC	H	$956,750	$1993	$4876
Travancore	VIC	H	$960,000	$1733	$4892
North Perth	WA	H	$875,000	$2383	$4459

Source: CoreLogic RP Data as at 31-Dec-15. A selection of suburbs, ignoring the most expensive. Median prices and rents for year. H = house; U = unit. [1]P&I payments, 6%pa interest, 85% LVR.

FINANCIAL LITERACY SCORES

Bottom quartile		Top quartile
29%	Aged 16-20	1%
9%	Year 10 or below	0%
16%	Year 11	2%
21%	Year 12	0%

In 2010, the overall average score (all age groups) was 11.8 out of 20.

SOURCE: COMMONWEALTH BANK

Savvy savers start early

Teach young children to manage their money

How do you raise a savvy saver? The experts say to start young. To mark the launch of Global Money Week – promoting national financial literacy and starting on March 14 – the Mortgage & Finance Association of Australia (MFAA) has nominated key steps for improving kids' financial literacy:

- Two to three years. Tangible teaching is a great way to get toddlers learning. The MFAA suggests you play with coins with your child, so they learn to identify them by size and weight.
- Four to six. While you're out and about, take your child with you to an ATM and show them how it works. From a child's point of view, this will probably look very exciting.
- Nine to 12. Assuming your child has started earning pocket money, it's probably a good time to discuss the concept of cheap versus expensive. Show your child how to save by buying items in bulk.
- 12 to 16. After they've been earning money for a while, it won't be long before they'll start thinking about how to spend it. The early teens is a good time to differentiate between needs and wants, to get your child thinking about saving for the items that they really do need. You could also suggest volunteer work for the poor, to help give them an idea of social responsibility. This can show them what it's like to be adult – about the responsibilities that come with earning and spending.

According to the Commonwealth Bank, if just 10% of children with poor financial literacy are taught to be money smart, it could create 15,000 new jobs and increase gross domestic product by $6.2 billion. Adolescents and young adults represent 42% of the least financially literate in the country (see chart above, based on CBA report), so it's important for parents to start teaching their children money-management skills early. STEPH NASH

Beware the debt managers

Living with a bad credit score can make life especially difficult. Understandably, many people approach debt management firms to help clean up their credit history, hoping for a fresh start and a better chance at securing, for example, a bank loan. Debt managers advertise a range of services, such as developing and managing budgets, negotiating with creditors, negotiating debt arrangements or removing a name from a default listing.

But the Australian Securities and Investments Commission (ASIC) has urged consumers to exercise a high degree of caution when using these firms. It has found that a large proportion of the disputes they handle leave the consumer worse off. ASIC is also concerned about the high fees and costs, describing them as "front loaded" and "opaque".

Unlike other financial services, the debt management business isn't held to any codes or benchmarks, so consumers should think twice about whether they really need to use them. The regulator recommends talking to your lender, telco or utility first about your financial hardship or credit rating. Sometimes lenders can offer payment programs or schemes to help you pay off your debt. The free financial ombudsman service can also help resolve your financial disputes. See fos.org.au. SN

INSIDE MY MONEY THIS MONTH

Rent-to-buy deals dodge the rules

Questionable 'lending' practices need to be reined in, writes Effie Zahos

"RENT, TRY, $1 BUY." DEALS such as this convinced one Victorian mum of four to enter into four rental agreements. While the household items involved were worth only about $9920, the total amount of rent for the two years was more than $18,500. Michelle Thompson, 26, also had no right to keep the goods.

Why anybody would enter into such an agreement is beyond me but, fortunately, I have never been in a situation where essential items such a fridge or washing machine have been out of my financial reach. The question that we should be asking is how can such unconscionable business practice be permitted.

With rent-to-buy agreements, you rent a new or used item (for example, a fridge) for an agreed period of time. You make regular rental payments, for example, every month over three years. You are not hiring the goods but you are making a commitment to buy them. At the end of the rental period, you pay an amount to finalise the purchase. Because they are technically a lease rather than a credit contract, this $570 million industry manages to avoid the National Credit Code, which promotes disclosure and protects consumers from excess fees.

"We call these leases 'credit in disguise'," says Adam Mooney, the chief executive of Good Shepherd Microfinance, which provides loans for people on low incomes. "The vast majority of customers will end up owning the product by making a tokenistic payment, which is often as little as $1. But that tricky buyout option enables them to avoid regulation."

Mooney says rent-to-buy agreements should be subject to the same regulations as other high-cost credit options such as payday loans, which are capped at 24%.

In Thompson's case, she paid interest of between 26%pa and 46%pa on the goods. It sounds outrageous but, according to a report into the rental industry by the Australian Securities and Investments Commission (ASIC) late last year, Thompson got off lightly. In another highlighted case, a customer on Centrelink was charged an interest rate of 884.34% on lease for a 5kg-capacity dryer.

Here's the problem with rent-to-buy agreements. They appeal to those who can least afford them. They're typically promoted through retail stores by salespeople who have no idea whether or not the applicants can afford them.

Gerard Brody, CEO of the Consumer Action Law Centre, says a gap in the law means that retailers do not have to ensure that in-store finance is responsibly lent. Also, these agreements are marketed in such a way that consumers have no real idea what they're in for.

Thompson took legal action against Flexirent. She alleged it failed to comply with its responsible lending obligations and entered into unjust contracts by leasing her products purchased at a Harvey Norman store. She survives on already insufficient welfare and couldn't afford the repayments. She won a settlement of nearly $4000.

Under the 2009 National Consumer Credit Protection Act, all credit licensees must comply with the responsible lending obligations. Put simply, this means they must make reasonable inquiries about your financial situation; they must take responsible steps to verify your situation and then make a preliminary assessment about whether the credit contract is "not unsuitable" for you.

Moody says Good Shepherd has called for the cost to be capped at the same level as payday loans, for capped lease terms and for greater price disclosure. The government is reviewing the small-amount credit contract (SACC) laws and considering submissions made by the Consumer Action Law Centre and Good Shepherd. Expect to hear more later this month.

Meanwhile, the no-interest loans offered by Good Shepherd Microfinance are a safe and affordable alternative. It provides up to $1200 for household essentials – whitegoods, furniture and computers.

CAN YOU CLAIM AGAINST IRRESPONSIBLE LENDING?

You can lodge a dispute with the Financial Ombudsman Service for compensation for the loss you have suffered as a result of your bank providing you with an unsuitable loan. If the ombudsman decides that your bank has been irresponsible, compensation comes down to what you used the funds for and how much you benefited. For example, if the loan was used to purchase a house, the ombudsman would consider any benefits you received while you owned the property. If you lived in the property while trying to make loan repayments, then you didn't pay rent, so you received the benefit of not paying rent. The ombudsman decides what portion of the loan you're expected to pay. See fos.org.au.

Money's editor has more than 19 years' experience in the finance industry

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*The My Ideal House design competition will take place in two phases. Phase 1 commences on 1 February 2016 and closes on 6 March 2016. Phase 2 commences on 14 March 2016 and closes on 6 April 2016. Open to Australian residents 16 years and over. All participants who proceed to Phase 2 will be required to sign a confidentiality deed in favour of Mirvac Homes (NSW) Pty Ltd (Mirvac). Participants who elect to work with Mirvac to develop their design for submission at the end of Phase 2 will need to sign a mentorship agreement with Mirvac. All information contained must be read in conjunction with the 2016 My Ideal House Competition Terms and Conditions. The Promoters are Mirvac and Bauer Media Pty Limited.

Shake up the slow payers

Try a friendly phone call before resorting to legal action, advises Anthony O'Brien

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ONE OF THE GREAT JOYS OF small business is being your own boss. This autonomy comes at a cost, however, and it often involves taking on uncomfortable tasks such as chasing up slow-moving debtors.

Invoice consistency is fundamental to maintaining business cash flow and minimising the time spent on chasing outstanding debts. Invoicing smaller amounts regularly will often facilitate speedier client payments. On the flip side, if you send a client a significant bill after allowing invoices to pile up, it can be a sure-fire way to get them offside. It might even generate cash flow issues for the customer and create a situation where they take longer to pay – or worse, they don't pay at all.

If you find yourself in the situation where there's an overdue invoice, contact the customer quickly, advises Katarina Vencel from Vencel & Co, a Sydney-based accounting firm. "If you offer payment terms of 30 days, follow the debtors up when payments are seven days overdue," she says. "If the payment terms are shorter than 30 days, chase the late payers earlier than seven days overdue."

A Queensland government website recommends sending a tardy payer a reminder or final notice. This is helpful advice but, when the hustle and bustle of running a business take over, it's easy to overlook reminders. It's worth noting that accounting software provider Xero has added an automated reminder service to its functionality. This means it's now possible to set overdue alerts for seven, 14 and 21 days which are emailed to overdue debtors.

Don't be frightened to jump on the phone to contact slow payers. By talking to them directly you can find out if there is a problem. If there is an issue perhaps you can work out a payment plan. If there is no problem, then ask them to settle the debt by a specific date. Vencel says business owners should use their common sense when contacting debtors. "You need to know when to chase and it's important not to go too hard or be too aggressive when approaching clients. Every approach should be friendly." Only when the matter drags on should you consider legal action.

Legal avenues

Patrick Kaluski, a commercial litigation and insolvency partner at legal firm Moray & Agnew, says taking the time to conduct commercial due diligence on prospective clients can reduce the frequency of unpaid invoices. If this hasn't let you sidestep a recalcitrant debtor, Kaluski recommends a letter of demand notifying the debtor that legal proceedings may be commenced. "This may persuade the debtor to pay the debt to avoid additional legal costs and interest," says Kaluski.

If legal proceedings are necessary, there are a number of avenues to take to recover the debts, including filing a statement of claim in court or serving a statutory demand. "A statement of claim can be initiated by a small business owner with the help of a chamber magistrate at court, although most people will instruct a solicitor to prepare and file it," says Kaluski.

If your customer is a corporation rather than an individual, a statutory demand can be served. This process gives the slow-paying customer 21 days to pay the debt. "If the debtor doesn't pay the outstanding amount, they can be wound up by the court," says Kaluski. The creditor will need to provide a statutory declaration stating there is no dispute between the parties about the existence or the amount of the debt before a statutory demand can be served, if no judgement has been obtained. "The possibility of liquidation often puts pressure on sluggish customers to pay a late invoice."

Finally, small business owners in certain industries, such as building and construction, may be able to take advantage of legislation that seeks to make the debt-recovery process more efficient, says Kaluski. "Specific advice from a lawyer should be sought in this regard," he adds.

Debt collectors

This is a business that tries to recover the money for you for a fee. Using a debt collection service goes one step further than sending a letter of demand because it signals to the debtor that you have decided to hand the matter over to professionals. This could further strain your business relationship with them but sometimes it may be more important to get the money you are owed. Commission rates for debt collection typically vary between 5% and 30% of the value of the debt.

Anthony O'Brien is a small business and personal finance writer with 20-plus years' experience in the communication industry.

Cheap and cheerful

There are ways to cut the cost of providing the children's gadgets, writes Susan Hely

KIDS HAVE GRAND EXPECTATIONS about which computers and mobiles their parents should buy them. But the reality is that they will quickly outgrow many of these items, so it doesn't make sense to splash out on something they'll use for only a short time. And they can easily be broken, lost or stolen, making it even more imperative not to overspend.

For parents who foot the bill for phones and computers, plus plans, the good news is that prices are coming down while performance improves. For example, a decent smartphone on the Android system costs $30 to $40, making it a throwaway item, says WhistleOut editor Joseph Hanlon.

Kids usually need a portable computer for school. Public schools often have a bring-your-own policy and private schools typically supply state-of-the art devices from year 9 and require parents to pay. Public schools usually have a list of suitable devices and software and a partnership with a supplier. BYO devices need covers, anti-virus software and insurance.

Often the device that a school wants is different from the one already owned at home and this situation has caused some parents to complain about the cost, particularly if there are a number of children in the family.

Choice magazine says you don't have to spend a fortune to get a good, basic laptop, or even a hybrid model that doubles as a touchscreen tablet. It recently tested 10 laptops ranging in price from $272 to $803, with nine models under $600.

You need a light laptop as kids have back-breaking packs already. It should be easy and intuitive to use with a decent battery life, USB and clear screen. If you are not sure about what to buy, don't rush in. Check with the school to make sure you have all the information.

Susan Hely has been a senior investment writer at The Sydney Morning Herald. *She wrote best-selling book* Women & Money.

BEST MOBILE PLANS: SHARE THE DATA

Family-sharing mobile phone plans are a great way for parents to save money. They allow you to pool data instead of paying for separate high-gigabyte plans for each person. This means that if kids tend to use more gigabytes than their parents, you can spread the usage. Family-sharing plans are offered by all big providers such as Telstra, Vodafone and Optus.

Joseph Hanlon, editor of the comparison site WhistleOut, says Vodafone offers a control mechanism that allows parents to select one of the mobile numbers in the plan and restrict the data to that phone number. This is a terrific feature if your children download a lot of video and stream music. You can restrict their usage so bills don't blow out. Or if they don't do their chores around the house, suggests Hanlon, you can cut off their connection to the internet until they do. "It is a great feature that other providers need to introduce," he says.

You can get a data-sharing plan even if there are just two family members, says Hanlon.

But how many gigabytes of data do kids need? It is easy for them to run up plenty of gigabytes each month. Hanlon says music streaming uses around 1 megabyte for a minute, which can amount to 60MB on an hour-long trip home from school. Over a month that is 1.2GB, so kids need a plan with 2GB or 3GB. If they do run over their data allocation, you want the next gigabyte to be cheap. For example, amaysim, Optus and Vodafone typically charge $10 for the next gigabyte.

One of the biggest choices for parents to make is whether to get a prepaid plan that has a set limit on data. A downside is that kids can run out of cover at an inconvenient time when they need to be in contact and parents need to recharge the account. It is best to choose a prepaid plan that offers unlimited text messages and calls.

To save money, Hanlon suggests avoiding major brands. "You get the same services and pay a lot less," he says. Boutique phone companies are on the same networks as the majors, ensuring good coverage and fast data speed. For example, amaysim is on Optus while Aldi and Boost are on Telstra.

Boutique carriers offer great features too. Hanlon likes Aldi's analytical feature, which looks at a customer's phone usage and tells them if the plan suits their needs.

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Danger in DIY wills

An expert's advice can prevent unpleasant – and expensive – legal challenges, writes Annette Sampson

DO I REALLY NEED AN EXPERT TO DRAW UP MY WILL?

These days there is an app for everything, and wills are no exception. Smartphone-based apps are the latest addition to the do-it-yourself will market, which also includes both paper-based and online kits. All claim to offer a cheap and easy way to sort out what will happen to your assets after your death. But some experts warn that by making it too easy, you could be setting up potential problems for your beneficiaries.

MAKE IT STICK

Contesting wills provides field days for lawyers. There is no shortage of court cases where wills have been contested, and in many cases judges have completely changed the will to include unintended beneficiaries.

Anna Hacker, national manager for estate planning at Equity Trustees, says will apps don't take into account the nuances of your personal relationships and circumstances, and can't be proactive in helping to deal with potential difficulties that may arise in the same way that a professional can. She says another danger is the growing trend to use videos as either a digital recording of, or supplement to, the will. While the idea of being able to personally express your wishes, and update them when you want to, is appealing, Hacker says confusion can arise if the video is not identical to your written will. Which version is legally binding? Even a minor difference may give cause for your will to be challenged or revoked.

DO: Make a will. Up to half of all Australians die "intestate" (without a will). In this case your estate is distributed by a set formula, which may not accord with your wishes. The formula differs by state and can include distant relatives.

COMMON MISCONCEPTIONS

While the law differs from state to state, Hacker says the approaches to challenging wills are similar and there are commonly held misconceptions across the country. She says one is the idea that beneficiaries cannot challenge a will.

So you may think that giving a token $100 to that son you fell out with 20 years ago will ensure he has no further claim on your estate. In fact, she says, you can't contract out of an estate challenge and, by leaving him $100 instead of nothing, it almost gives him a foot in the door to demand more.

Similarly, she says, giving reasons for excluding someone can be counter-productive. In fact, if that person feels slighted, it may even spark a challenge. She says a better approach is to put your reasons in a separate letter that can be used if needed. Another common

THE CHALLENGE

A job on the side

Think ahead if you want to avoid a tax bill shock, advises Maria Bekiaris

MULTIPLE JOBS ARE BECOMING the norm. Whether it's a temporary second job to earn extra cash or starting a side business because it's something you're passionate about, there are a few issues you should think about when you're making extra money on the side. Along with making sure you maintain a good work-life balance, there can be financial implications of having a second job – mostly tax related.

You need to be smart to make sure you don't get hit with a big bill at tax time. The simplest way to avoid this is by not claiming the tax-free threshold from both employers. "Generally, the first $18,200 of income is not taxed each year. This is the tax-free threshold," explains Mark Chapman, director of tax communications at H&R Block.

recommendation is to use a separate statutory declaration to set out the reasons.

DO: Be aware that judges have overturned wills where a dependant or former dependant (such as an ex-spouse) has shown they merit a share in your assets. Laws differ by state so be aware of potential claims before excluding someone.

Hacker says another common myth is that the estate automatically pays the costs of any challenge to the will. While this is not uncommon (and reduces the pool for all beneficiaries), she says courts can order people who fail in their challenge to pay costs for the estate as well as themselves.

She says many people also believe that family members acting as executors can't be paid to administer the will. In fact, there is nothing preventing this and a growing number of executors are asking for payment, especially where administering the will is complex and time consuming.

While many people believe they need only a simple will, Hacker says the growing complexity of family relationships and how we earn our incomes has resulted in many people's circumstances being less straightforward than they might think. Blended families, ex-partners and ownership of assets that pre-existed current relationships are just some of the factors that must be taken into account.

DON'T: Assume that once you've done your will, you can set it aside and forget about it. It will need updating as your circumstances change. Events such as divorce can even cancel the terms of your will.

Court battles have also been fought over the existence of multiple wills where it is not clear which is the valid version. See page 44 about managing an estate.

Annette Sampson has written extensively on personal finance. She was personal finance editor with The Sydney Morning Herald*, a former editor of the* Herald's *Money section and a columnist for* The Age. *She has written several books.*

TAKEOUT TIPS

- Guarding against potential challenges is an important consideration when drafting your will.
- Potential beneficiaries can overturn your wishes even if you have specifically excluded them.
- Online apps and other do-it-yourself tools can be useful in framing a will but, if you want to ensure your wishes are followed, it is worth getting it looked over by a professional.

"If there is more than one payer at the same time, the ATO generally requires that the tax-free threshold is claimed from the payer who pays the highest salary or wage. This is known as the primary source of income. If you earn additional income, your second payer is required to withhold tax at the higher, 'no tax-free threshold' rate. If the second payer does not withhold a higher rate of tax, this may lead to a tax debt at the end of the financial year."

Even if you do this, there is a risk that your increased total income may push you into a higher marginal tax bracket, says Chapman, which may lead to an underpayment of tax at the end of the year – still leaving you with a tax bill. "The best solution to this is to ask one or both of your employers to increase the amount they deduct for tax from each pay," he suggests.

"Make an estimate of how much you will owe, and then ask them to increase it by a little bit more, to be on the safe side. Any excess will then be refunded when your tax return is lodged."

If your second income is not from an employer but a side business or a freelance role where tax isn't automatically deducted from your pay, make sure you set aside some extra cash to cover the tax you'll need to pay.

You can use an online tax calculator to help you estimate how much you might need to pay. If you register your business for GST – which you'll have to do if you think it will have a GST turnover of $75,000 or more – you'll also need to submit quarterly business activity statements (BAS).

One of the extra deductions you may be able to claim is the cost of using your car to travel directly between two separate places of employment. The key here is that it has to be a direct trip – so you can't go home first or stop at the bank or pick up groceries. And you can't claim a deduction if you work at home for one of the jobs.

Something else you should think about is superannuation. If you're entitled to super from your second employer, then ask if you can have it paid into your existing super fund rather than starting a new fund. You don't need to be paying the two sets of fees of two different super funds.

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STORY SUSAN HELY

Hassle when

Organising a funeral and sorting out a will can be a complex and expensive exercise

WHAT STEPS MUST you take – and how much will you have to pay – when a loved one dies? If you have never organised a funeral, tracked down a will or sorted out an estate's assets, you will probably find it daunting. The tasks are time-consuming and complex and they come in the midst of the emotional storm of grieving and – most likely – family tensions.

It is important to pay attention to the costs because they can mount if your family insists on using experts such as an estate lawyer and accountant or a trust company. If you want to keep costs down, work out if you can do some of it yourself. Perhaps the tasks can be shared among family members; there is plenty of information from government agencies to guide you.

I know this because when my mother died it was the first time I had navigated my way through funeral arrangements and winding up an estate. My mother's assets were straightforward: a nursing home bond, bank accounts, shares and personal belongings.

However, I spent about $28,000. Just over half went to the costs for the funeral home ($6900) and cemetery ($8000) – and the rest to winding up the estate, using a lawyer and accountant, and probate.

STEP BY STEP

Find the will

One in two Australians die without a valid will and if you don't have one, the assets are distributed according to a set formula set down in a statutory order known as intestacy rules. You may know that it isn't what they wanted but you can't do anything about it.

Identify the executors named in the will. Often executors are relatives but sometimes they are friends or outside the family. Executors manage the estate and must act impartially in the best interests of all beneficiaries. They don't have to be experts because often they work with lawyers. It is more important for them to be fair-minded and responsible.

If there is an outside executor or a trustee company, be aware of the costs. Sometimes it is an hourly rate or a fixed fee that is based on a percentage of the assets of the estate that goes to probate. According to the Law Institute of Victoria, an outside executor is generally entitled to claim all costs and expenses incurred in administering the estate and if the estate is complex and time-consuming, they can apply to the Supreme Court for an executor's commission of up to 5% of the value of the estate and 6.6% of all income received by the estate.

Obtain a death certificate

The funeral home usually fills out the forms, registers the death and provides the death certificate. Make many copies and have them certified by a justice of the peace or lawyer as you need to produce a copy for claiming life insurance and other drawdowns.

Value the assets

Work out the assets and any debts. Assets include money, houses, land, cars, shares, clothes, jewellery and any other goods. They don't include superannuation.

"People often think that they don't have much but the family home, superannuation balances, a couple of shares and other assets can all add up to a very valuable legacy, particularly in Sydney where the median house price is over $1 million," says Michael Hutton, head of wealth management at HLB Mann Judd.

Advertise to let people know that the estate is being settled. This notice is to alert anyone who knows of another will, creditors or others who might have an interest in the estate and give them the opportunity to put in a claim. It must be placed for a set period before applying for probate.

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Get together the assets – such as bank accounts, shares, property, cars and nursing home bond. Super is dealt with separately from the person's estate. If there is no nominated beneficiary or binding beneficiary, then the super fund will make a decision about who is entitled to receive the benefits.

Family members must agree on the value of the assets before you apply for probate. This can be trickier than it sounds. "Even if there is a will and seemingly amicable relations exist among the deceased's family, lovers and friends, it may not take long for tensions

least needed

to surface. Often, death can be a catalyst for exposing unresolved conflicts," warns the NSW government's legal answers website. It says any loans to certain family members that are taken into account in the estate can be disputed. "Gifting to one child and not the other causes a lot of angst," says Hutton. "More than one spouse in a lifetime can also cause litigation against the estate."

Work out if you want to sell shares or divide them between family members. There are capital gains tax implications if you decide to keep them.

Apply for probate

This can only be granted if there is a will. The registrar of probates in the Supreme Court grants probate, which is a court order confirming the will is valid. Probate is essential for collecting the assets for the beneficiaries from groups such as banks and nursing homes. Probate will be held up if anyone challenges the validity of the will.

Once the family members have agreed, they must sign the application for probate. There is a filing fee that is based on the value of the assets in the estate. For example, in NSW if the estate is worth between $500,000 and $1 million, the fee is $1424. How long the probate takes to come through can vary.

One area that people aren't clear about is jointly owned assets, says Hutton. "It is not always understood that jointly owned assets automatically go to the surviving joint owner, regardless of what a will says. This includes jointly owned property and joint bank accounts."

There is a long list of groups to be notified about the death, including the health fund, insurance company, credit card providers, banks, Centrelink if they were on a benefit, super fund, utilities, phone and internet providers, electoral commission and the authority for car registration and licence. In my mother's case there were regular donations to charities, so they needed to be contacted.

One of the most onerous tasks I found was completing my mother's tax. After a person dies, their estate is treated separately from their usual tax return for tax purposes. This means there are two tax forms to fill out: one for the period to her death and then you must apply for an estate tax file number. Because my mother had owned some shares for a long time, capital gains tax applied to their sale.

One way to reduce the cost of sorting out the estate is to avoid a lawyer. There are recommended fees for a straightforward estate but in my case the lawyer exceeded this by $3000. We had two meetings but the bill was still a whopping $9272. But then you would have to do all the work of getting probate granted, collecting the paperwork for the assets, getting valuations, paying debts and distributing the assets. Sometimes family members feel better about engaging a lawyer than trying to do it themselves.

Lawyers' recommended rates are set down by the legal profession regulations and are based on the size of the estate and the work involved. They must provide an estimate of their costs in writing before carrying out the work. The Law Society of NSW advises you to shop around when choosing a solicitor but warns that the cheapest may not be the best. It recommends checking the experience of the solicitor in estate work. **M**

Get your dollar's worth

STORY STEPH NASH

Our currency may be in the doldrums but there are strategies to make it go further

WE ARE REGARDED as some of the best-travelled people in the world. Something about our easygoing nature attracts us to the idea of meeting new people and seeing new things. Unfortunately for us, the great Aussie dollar has been weak against the greenback for a while now – at the time of writing it was worth around US70¢. The English pound is also expensive, as the $A is worth a measly 49p.

While overseas travel for Australians has become more expensive, it hasn't deterred us from living it up. The Australian Bureau of Statistics reports that more Australians than ever are visiting the US. So the falling dollar has barely deterred us from travelling to the "land of opportunity".

Australians are about $32 billion in debt, says the government's MoneySmart website; each credit card holder owes around $4300 on average. Our love for travel and the current US exchange rate probably will do little to reduce this number but if you are heading overseas there are a few ways to make your money go further.

DO

House swap: It may sound too good to be true but some members of house-swapping sites claim that now they've seen the light they will never travel any other way again. It beats Airbnb because it's practically free. HomeExchange.com charges a membership fee of $180 a year and has some 65,000 home owners registered in more than 150 different countries. It says accommodation is 58% of average total travel costs so house swapping could free up a big chunk of your budget.

HomeExchange also offers the option of swapping your car, which again could save you big money. Whether you're swapping your house or your car make sure you find out about any necessary insurance cover and whether your existing policy protects you for house swaps.

One long-time member of the service says the best way to stay out of trouble is to find a house or apartment that is similar to your own. Swapping an unkempt apartment in a shabby suburb with a waterfront penthouse wouldn't be a fair trade. Honesty is the best policy, so be upfront about what potential guests can expect from your home and neighbourhood.

Cruise: One way to avoid the sting of currency exchange is to cruise your way around the world. There are many Australian liners that take you overseas, whether you're off to America, Asia, South America or the South Pacific.

A good thing about cruises is that they allow you to combine your transport, meals and accommodation within one package – they're usually great value for money. So as long as you don't suffer from excruciating bouts of motion sickness, they can be an attractive alternative. But you should be careful of tour packages that are offered through your liner. These can be expensive, so make sure you compare costs online before booking a tour.

If sailing from Australia isn't quite what you had in mind, you could fly to a country near your main destination and jump on an international

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Swapping a shabby apartment downtown with a penthouse on the waterfront **wouldn't be a fair trade**

liner. Some internationally operated cruises are priced in other currencies – for example, Star Cruises accepts Chinese, Japanese and Taiwanese currencies – and you could benefit from the exchange rate. Royal Caribbean has cruise packages in Australian dollars, and takes you anywhere from the Bahamas to the United Arab Emirates. Even with a return flight on top, a cruise package can help you to reduce the cost of your holiday.

Lock in a rate: Predicting the Australian dollar is a gamble. Today you can buy US69¢ for a dollar, and if in three months that fell by another 5¢, you'd probably kick yourself for not buying your US dollars sooner. But locking in your exchange rate is as much of a gamble as waiting for the rate to change – if the US dollar gets cheaper, you'd be just as furious about cashing in too early. You can play it safe by not buying all your $US at the same time.

Many travel cards allow you to secure your exchange rate at no cost. When you're looking for a card, check the product disclosure statement (PDS) for details on lock-in exchange rates. The MasterCard multi-currency cash passport allows you to load several currencies and lock in an exchange rate at the time of purchase. So too does Commonwealth Bank's Travel Money Card.

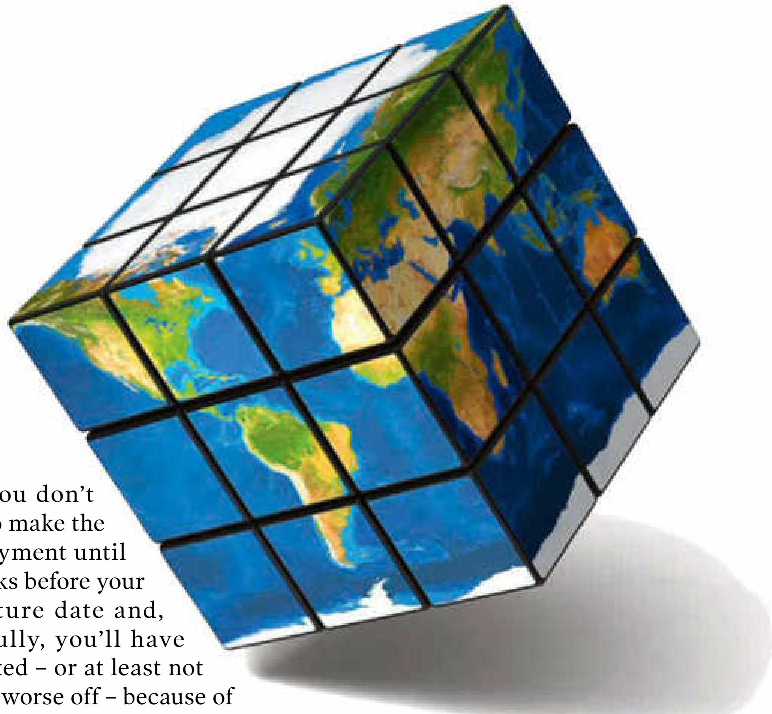
While lock-in rates are important, it's also crucial to check the fees and surcharges. Some cards will rip you off at foreign ATMs while others will impose an absurd surcharge for adding money to your account while overseas. It's pretty handy to be able to stay ahead of currency fluctuations but, at the end of the day, beating the fees and charges on these cards is more important, so be sure to read the PDS before you buy.

AVOID

Holding deposits: "Pay now, travel later" sounds like a great way to cut costs. International flights tend to get more expensive closer to take-off, so if you pay early you'd assume you're beating the movement in the exchange rate and any changes in seat availability – right? Well, in most cases, probably not.

Some Australian airlines allow you to temporarily hold the price of your flight. But this usually comes at a high cost and, for a maximum holding period of two or three days, you don't really achieve much. Unless you're desperately awaiting confirmation that you or a companion are free to travel, it's probably best to avoid this service.

STA Travel has a lay-by system for domestic and international flights, accommodation and tour packages. If you're travelling internationally, you can lock in the price of your flights for



Read the website's terms and conditions to see if **extra charges will apply** when you book a last-minute fare

Where to find the best value

Last year about 10% of Australian travellers visited the US. While it's a great place for shopping, eating and visiting iconic landmarks, it's currently one of our most expensive holiday destinations. The easiest way to beat the dollar? Fly to a destination with a cheaper currency.

Mexico: If you don't have the cash to visit America, why not try one of its South American neighbours? The $A can buy 12.98 pesos, so if you've never been to a beach resort at Cabo San Lucas, now could be the time to go. (One Big Mac costs 49 pesos.)

Brazil: Even though the Olympic Games are due to be held in Rio de Janeiro in August, the Brazilian real is yet to show much strength against the Aussie dollar or the greenback. At the time of writing, $A1 could buy 2.82 real. (One Big Mac costs 13.50 real.)

New Zealand: Say g'day to our friends across the Tasman. The $A can currently buy you more than $NZ1.05, so a winter trip to the slopes at Queenstown is now little bit more affordable than it was in May last year. (One Big Mac costs $NZ5.90.)

Singapore: If it's a city trip you're after, look no further than the beautiful garden city of Singapore. With the $A and $S close to parity, you can afford to shop your way around town and even make a pit stop at the famous Sentosa Island. (One Big Mac costs $S4.70.)

Australia: Save by travelling in your own backyard. Online shopping websites always have cheap packages, so jump online and nab a bargain. (One Big Mac costs $S5.30.)

$99. You don't have to make the full payment until 10 weeks before your departure date and, hopefully, you'll have benefited – or at least not be any worse off – because of price fluctuations during that delay.

But according to TripIt.com, prices for flights over the expensive Christmas period start to rise only about 40 days before take-off, by which time you would've had to pay your fare anyway. So it would seem that the lay-by fee of $99 (over and above the cost of the flight) is not worth it, unless you need to put your flight on hold for confirmation purposes.

Last-minute deals: Some booking sites offer exclusive discounted fares that are amazingly cheap. They are usually last-minute deals organised through a subsidiary of Booking.com or Expedia.

But beware – using any secondary travel website comes with risk. If you search for wotif.com.au or agoda.com.au, you'll find online forums that talk about the pitfalls. Poor customer service is usually the biggest complaint – and a few problems about bookings going completely awry.

Some users swear by these services, while others pledge to never use them again. Where's the actual truth? If a cheap deal seems too good to be true, it usually is. Always read the website's terms and conditions to see if any extra charges will apply when you book and, if you go ahead with the deal, record all of your steps as you go.

If you're travelling to the US, you'll find that most hotels charge a fixed "resort tax" for every night of your stay to cover amenities and services. Secondary sites don't always include these extra charges in their fare, which *The Huffington Post* reports could surprise you to the tune of an extra $US3.50 to as much as $US60 a night, depending on the season. **M**

MORE BANG FOR YOUR BUCK

	SYDNEY TO RIO DE JANEIRO	SYDNEY TO LOS ANGELES
Flight	LAN Airlines return, 2-Sep-16 to 14-Sep-16 SYD-GIG: 24hr, 45m, 2 stops GIG-SYD: 25hr, 45m, 2 stops	Fiji Airways return, 2-Sep-16 to 14-Sep-16 SYD-LAX: 17hr, 25m, 1 stop LAX-SYD: 19hr, 15m, 1 stop
Flight cost	$1371, 1 person; $2743, 2 people	$998, 1 person; $1996, 2 people
Accommodation	10 nights at Windsor Excelsior, Copacabana, Rating: 3½ stars	10 nights at Best Western Plus Sunset Plaza, West Hollywood, Rating: 3 stars
Accommodation cost	$3167 single or twin share	$4043 single or twin share
Total cost	$4539 single $5910 couple	$5041 single $6039 couple

Source: Expedia as at 10-Feb-16; prices include all taxes and surcharges. Prices rounded to nearest dollar.

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APARTMENTS

Oversupply looms in some markets

Greville Pabst
CEO, WBP Property

After a strong 2015, supply will continue to meet demand, but will demand hold up in the long term? Australia on the whole is not necessarily in oversupply. However, market-to-market evaluation shows varying degrees of risk in each city.

Perth is experiencing conditions that pose risk to the health of its property market. Oversupply is a hard pill to swallow for vendors trying to sell. The combined economic effect of employment instability, the mining downturn and a reduction in consumer confidence has resulted in a significant volume of properties for lease and sale in metropolitan Perth and the Peel region.

In 2016, supply will increase further in Sydney, specifically the supply of new developments. Investors who have bought and made money may look to sell at the completion of the apartment development in the hope of avoiding any falls as the Sydney market cools during the year. However, prices are already declining in some property classes, giving cause for caution to those mortgaging against their home. In a self-fulfilling fashion, the further departure of investors will accelerate the market decline.

In Australia's largest markets, Melbourne and Sydney, apartments represent less than 10% of all dwelling stock – a far cry from international cities New York, London and Hong Kong, where up to 40% of all properties are apartments.

Stricter lending conditions for investors continue to fuel that group's withdrawal from the marketplace, with implications for the performance of both new and established apartments. Couple this with ever-decreasing unit sizes aimed at maximising developer profit margins and the off-the-plan market has a dubious outlook.

Though some pockets of any market may display characteristics of an oversupply, there are three key factors that investors should keep in mind to protect themselves: scarcity, land value and lifestyle. These are the golden rules of any investment property.

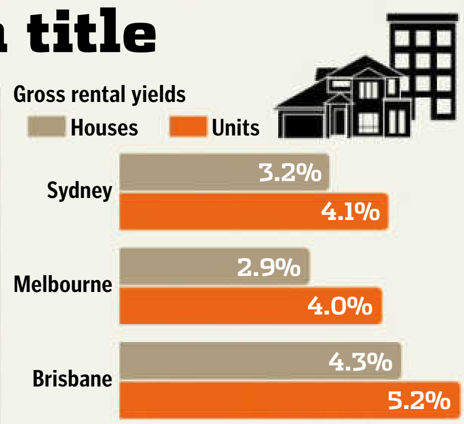
Melbourne takes the growth title

Sydney has lost its place as the best-performing capital city. While the NSW capital pulled back from record highs – a 2.1% drop in dwelling values in the three months to the end of January – Melbourne largely held its value with a 0.1% decrease.

Melbourne's growth rate is currently the highest of any Australian capital city, and its dwelling values are 11% higher over the 12 months to the end of January. Sydney has been sliding since its peak annual price growth rate of 18.4% in July last year and is now at a 29-month low.

CoreLogic says the growth across all capitals has eased from midyear highs. Values are 0.6% lower than they were at the start of November but CoreLogic suggests that this is relatively normal performance in the quiet months of January and February.

A bounce in January may mean that all capital cities are less likely to experience material decreases over the year. CoreLogic says the overall gain is likely to be less than the 7.8% achieved in 2015, which could be blamed on the slowdown in Sydney, Melbourne, Perth and Darwin. STEPH NASH



SOURCE: CORELOGIC RP DATA

INSIDE PROPERTY THIS MONTH

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Slash the selling costs

DIY online businesses are challenging the role of the traditional agent, writes Pam Walkley

IN CANADA ABOUT 20% OF HOME owners sell their own properties without paying commission to a real estate agent but, in Australia, only about 2% of home sales are commission free, says Mark Korda, co-founder of KordaMentha. His company is investing in buyMyplace.com.au. Korda says the online business – due to list on the ASX in March – is well positioned to drive digital disruption to the traditional real estate agent model.

Sellers who want to save big bucks or have a lack of faith in agents, or the internet generation who do everything online, are the driving forces behind the disruption of the $6 billion home sales industry.

There are now several providers, including hello.com.au and propertynow.com.au, set up to enable vendors to sell their own properties at a considerable discount to paying agents' commission.

Make no mistake, the increasing ability of the internet to match buyers with sellers means the established practice of real estate agents charging hefty commissions for what often seems little effort is under threat. Most real estate advertising is now online and 86% of potential buyers use online as their main tool to search for property, according to the buyMyplace website. And this has led to the evolution of commission-free real estate sales platforms.

All this means selling our own property, with a little help from the internet, has never been easier.

BuyMyplace suits those who want basic help, with the option of extra services. For $650 it will list your property on its website and six others, including the two big guns, realestate.com.au and domain.com.au. Sellers also get a selling board and four hours of support with property experts. You can pay extra for things such as professional photos, negotiation, auction services and conveyancing. Chief executive Paul Heath says sellers save $15,000 on an average sale.

According to buyMyplace, it's a myth that you need a lot of time to sell your own home, saying on average its vendors spend less than 14 hours doing it. Another myth is that an agent who has never lived in your property can do better job selling it than you. Neil Jenman, a consumer advocate, says we have been conditioned to believe that buying or selling real estate is difficult. "For years we have been told we need agents. But in most cases that is not true," he says.

If you have an expensive property, the one-size-fits-all Hello Real Estate is worth investigating. For a flat fee of $9900 you say "goodbye to traditional agents and hello to personal mentors", according to the Hello website. Services such as independent valuations, styling and photo shoots, digital advertisements, colour brochures and a signboard are all included. Selling a home for $1.5 million using a traditional agent would cost $30,000 in commission based on a 2% rate. With Hello you would save more than $20,000 on the transaction. But if your sale price is $500,000, commission would only be $10,000 and the savings negligible. Of course, many agents also charge a marketing fee as well commission.

Propertynow.com.au describes its service as a hybrid between traditional real estate and private selling, labelled "agent-assisted sales". Its core service costs $499 and includes standard listings on several websites, including realestate.com.au (listing on Domain is an extra), a for-sale sign, printable brochures, support and advice, instant forwarding of email inquiries and a guide to selling.

Even if you decide to use an agent, there are several sites, including agentselect.com.au and agentscompare.com.au, to help you pick the right one. These sites enable you to register your property online and receive competitive selling quotes from local agents. They are free to vendors.

AVOID THE LMI ROADBLOCK

As property investors look to build their portfolios, those with low deposits, or a credit history that isn't squeaky clean, are having a harder time than most. For a traditional lender, a borrower taking out a loan with a deposit of less than 20% will typically require lenders mortgage insurance (LMI). This not only means thousands of dollars in extra costs but, importantly, it requires extra background checks and any blip on your credit history may stop the loan in its tracks.

In a competitive market, investors need quick decisions – not more paperwork and roadblocks. The key for many borrowers in these situations is removing the need for LMI. There are mainstream specialty lenders who will assess and price for risk comfortably without always requiring external LMI as part of the loan process.

Asking your broker the right questions might mean the difference between successfully securing that new property and missing out entirely.

HEIDI ARMSTRONG, HEAD OF CONSUMER ADVOCACY, LIBERTY FINANCIAL

Pam Walkley, founding editor of Money *and former property editor with* The Australian Financial Review*, has hands-on experience of buying, building, renovating, subdividing and selling property.*


Leave your credit history for dust at Liberty
At Liberty we know that credit history is just that, history. Which is why we keep an open mind when assessing ALL of our loans.
If you've had some credit issues in the past, that's ok. No need to be held back by them any longer. Give Liberty a call today and you could start moving your credit on for good.
Visit liberty.com.au or call 13 11 33.
CANSTAR outstanding value
Variable Home Loan
CANSTAR outstanding value
Low-Doc Home Loan
CANSTAR outstanding value
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Variable Home Loan Investment
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Canstar Outstanding Value Awards 2015.
Liberty Financial Pty Ltd ABN 55 077 248 983. Australian Credit Licence 286596. Approved applicants only. Lending criteria applies.

CASH IN on TOURISM

STORY PAM WALKLEY

Visitor numbers are booming – and they all need a place to stay

THE TOURISM SECTOR is one of the bright spots in the Australian economy, with some analysts predicting it will help to fill the hole caused by the demise of the mining boom. A lower Australian dollar, combined with our natural attractions of beach, bush and fabulous cities, has caused overseas visitors to flock to our shores. In the year to November 2015 we had 7.34 million visitor arrivals, up 7.2% on the previous 12 months, reports Tourism Australia. Of these, about 5.4 million were here for leisure purposes. And, for the first time, Chinese visitors topped 1 million in a 12-month period.

And more of us are holidaying in our own country because overseas destinations have become more expensive with the fall in the relative value of our dollar. Overnight trips by Australians are up 7%, and visitor nights increased 5%, Tourism Research Australia figures show for the year to September 2015.

The eastern seaboard, stretching from Tasmania to Queensland, experienced the biggest growth in overall tourism numbers (see state-by-state table opposite).

And the one thing all these visitors need is somewhere to stay, boosting the attractiveness of tourism property as an investment. Here are four ways property investors can cash in on the tourism boom and the pros and cons of each.

1 BUY A HOLIDAY PROPERTY

This requires a large outlay so it's important to choose your area and property carefully, as it can significantly affect both your rental returns and capital gain when you decide to sell. Ideally it will be in an area popular with tourists but without a surplus of accommodation. So you should be wary of Gold Coast and Melbourne CBD apartments, for example.

Make sure you accurately estimate all the costs of running a holiday property, particularly if you don't live locally. This will include management of services, such as cleaning, listing your property on one or more websites such as stayz.com.au or airbnb.com.au, insurance, maintenance and land tax. If you borrow to buy the property you will need to add in interest costs.

Claiming tax breaks on holiday homes is less clear-cut than on other residential investments. You can claim only for the period the property is available for lease and the tax office can demand proof of this. It has said it is stepping up its focus on rental property owners, in particular holiday home owners, who may have incorrectly claimed deductions on things such as maintenance and interest.

Pros

- Complete control over the property.
- Can provide a combination of investment and lifestyle as you can use it for holidays.

Cons

- Big outlay on one asset.
- If you choose the wrong property or location, your returns could be poor.
- Be very careful claiming tax breaks.

2 BUY A SERVICED APARTMENT

On the surface buying a serviced apartment seems a no-brainer. Operators such as Quest, which has been around for 24 years and has 150 serviced apartment properties in Australia and New Zealand, offers a predictable 6.5%-plus gross rental income return. Other attractions are long leases, fixed annual rental increases and known outgoings.

Prices vary: in early February, Quest listed a two-bedroom apartment in the Melbourne suburb of Moorabbin for $398,000 (gross yield 6.98%); a three-bedder in Echuca, a rural Victorian city on the Murray River, for $422,784 (gross yield 7.5%); and a one-bedder in the NSW Riverina city of Wagga Wagga for $255,000 (6.76%).

But it's not all upside for serviced apartment investors. Rental guarantees are only as good as the company issuing them and demand for these types of properties is reduced because investors are the only buyers. This can depress prices and capital growth. And many lenders will not lend as high a percentage on these properties as they will on more traditional residential investments.

Pros

- Hassle-free investment managed for you.
- Good income returns as long as managed by a reputable company, particularly suiting those on fixed incomes.

Cons

- Limited market for resale, potentially curtailing capital growth.
- A bigger deposit needed because most lenders restrict how much they will lend on them.

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3 BUY SHARES IN A LISTED COMPANY

This option gives you the lowest-cost entry as $500 will buy you a parcel of shares. Mantra Group (ASX code MTR) and Event Hospitality & Entertainment (EVT, formerly Amalgamated Holdings) are two that have been the focus of recent analyst reports.

Mantra is one of Australia's biggest accommodation operators with several brands, including Peppers, Mantra and Breakfree, providing 2.3 million guest nights a year. Listing in June 2014, its share price has risen 76% in the year to February 1. It recorded a $36.2 million net profit after tax for the 2014-15 year, up $36.5 million on 2013-14, and it paid a dividend of 10¢ a share.

Event Hospitality's brands include Rydges, QT Hotels and Thredbo Alpine Resort. It reported a record after-tax profit of $108.9 million, up 39% on the previous year, and paid a special dividend of 8¢, taking the full-year payout to 53¢, up 11¢ on 2014. The share price has risen 30% in the year to February 1.

Pros

- Can get into the sector with limited funds.
- Can buy and sell easily.
- No management hassles.

Cons

- Affected by sharemarket volatility.
- No control over your investment.

NEW BOOM

STATE	GROWTH FOR YEAR		
	VISITORS	NIGHTS	SPENDING
NSW	6%	9%	15%
Victoria	11%	19%	28%
Queensland	6%	9%	14%
Western Australia	6%	2%	-2%
South Australia	1%	flat	11%
Tasmania	19%	10%	26%
ACT	3%	12%	2%
Northern Territory	flat	1%	-1%

Source: Tourism Research Australia, year to September 2015.

4 RENT OUT A ROOM IN YOUR HOME

If you have one of the 9 million or so spare bedrooms in Australia – or, even better, a studio in the backyard – it can be a money spinner. The internet has meant it's now relatively easy to match your excess accommodation with short-stay visitors.

How much you can achieve varies significantly, depending on location, standard of accommodation and convenience to transport routes. Airbnb says you can earn an average $531 a week by renting out a room at the iconic Bondi Beach, $463 on Victoria's Mornington Peninsula, $393 in Noosa Heads on the Sunshine Coast and $559 in Western Australia's Margaret River.

Fees vary and are the same for owners of spare rooms as they are for holiday home owners. Stayz has recently switched to a fixed 10% commission compared with Airbnb's policy of charging the host a 3% commission plus an additional 6% to 12% service fee is levied on the guest.

Other costs include cleaning, laundry, insurance and maintenance. You'll have to pay tax on the income you earn but you will also be able to claim deductions for costs such as depreciation of fixtures and fittings in rented rooms as well as part of your utility bills and rates.

If the room or studio you are renting is part of your family home, this will negate its total capital gains tax-free status when you sell. CGT will be payable on a pro-rata basis for the percentage of floor space used to provide income and for the period you received income.

Pros

- Make extra money from an asset you already own.
- Claim tax deductions for part of your regular bills, including rates.

Cons

- Not everyone wants others staying in their home or on their property.
- Management hassles associated with providing the space.
- The loss of the completely CGT-free status of your home. ***M***

Need help?

Useful numbers and websites

Australian Communications & Media Authority
1300 850 115
www.acma.gov.au

Australian Competition and Consumer Commission
1300 302 502
www.accc.gov.au

Australian Securities and Investments Commission (ASIC)
Local call: 1300 300 630
www.asic.gov.au

Australian Securities Exchange
131 279
www.asx.com.au

ASFA
1800 812 798 (outside Sydney)
9264 9300 (Sydney)
www.superannuation.asn.au

CPA Australia
Listing of accountants
1300 737 373
www.cpaaustralia.com.au

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ASSET ALLOCATION

Japan gets a tick

Al Clark
Nikko Asset Management

We entered 2016 underweight equities, concerned that markets were still adjusting for the liquidity drain from a stronger US dollar and increasing interest rates. On the whole, valuations have improved in most equity markets but with momentum still weak and earnings struggling to grow we felt there would be better opportunities for allocating capital.

Japan is still our favoured equity market. Valuations are attractive and Japanese companies continue to deliver positive earnings growth. We view favourably recent growth initiatives and their focus on unlocking shareholder value. Economic growth is still challenged but cheap oil is a significant tailwind.

A stronger US dollar, increased borrowing costs and an imploding energy sector are all weighing on US equity earnings growth. On the positive side, valuations are no longer expensive and, with market expectations for earnings very low (flat for 2016) the potential for upside surprise is high. One possible contributor could be the US consumer. Labour markets are solid, wage momentum is finally picking up and the "tax cut" from lower oil price suggests disposable income should be rising.

Emerging markets struggled in 2015 as the triple whammy of falling commodity prices, higher borrowing costs and rising geopolitical risks forced a painful adjustment. The good news is the adjustment has been swift and most emerging market assets look cheap. It may be too early to call an end to the rebalancing but investors can take some comfort from the valuation "cushion" of lower prices.

Where I'd invest $5000

Justine Davies,
Canstar

First up, this is not advice but simply my opinion for my personal situation. Having covered that, any spare $5000 that I had would be salary sacrificed into my super fund. At the moment my super contributions are being directed into Australian shares to take advantage of current market volatility.

For Australian share investment, I particularly like exchange traded funds as I can easily diversify any amount of money and, at the moment, I'm keen on the iShares S&P/ASX 200 ETF offered by BlackRock. The fees and performance pass muster, and the product is designed to reflect the performance of the largest 200 companies in the domestic market.

FACT FILE

iShares S&P/ASX 200 ETF

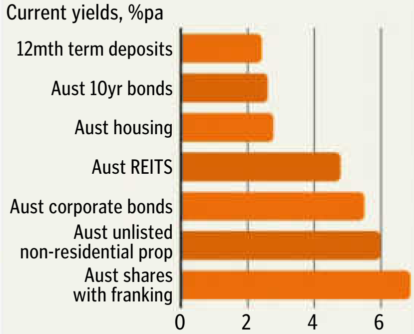
- ASX code: IOZ
- Management costs: 0.15%pa
- Three-year return: 8.71%pa
- Commencement: December 2010

Hopes pinned on dividends

The Australian sharemarket is off to a shaky start. Investors face constrained capital growth and high volatility and, since bank term deposit rates are low (about 2.4%), they need to look elsewhere for income.

Shane Oliver of AMP Capital believes now is the time to hunt for dividends, as they are more stable than prices. He predicts interest rates will remain low or fall to 1.75% in the next six months, implying sub-par capital growth.

Alternative sources of yield to bank deposits
Current yields, %pa



SOURCE: BLOOMBERG, AMP CAPITAL

Dividends have provided more than half the 11.6%pa total return from Australian shares since 1900 and are particularly attractive in times of market uncertainty. And to keep shareholders happy, companies avoid cutting their payouts. Dividends will be in demand from baby boomers, who need income investments as they enter retirement.

The fully franked dividend yield on Australian shares is about 6.9%, well above returns from term deposits. Shares, however, entail the risk of capital loss. Oliver suggests focusing on stocks with sustainable, above-average dividends, for investors who need greater certainty of a return. STEPH NASH

INSIDE INVESTING THIS MONTH

Sit tight: it's all in the timing

Investors should set aside spare cash to take advantage of the opportunities they'll spot as our economy rebalances, advises Ross Greenwood

INVESTORS HAVE A DILEMMA RIGHT now. There seems nothing to buy. Well, perhaps there are things to buy but having the confidence to buy them is another thing altogether.

Money in the bank earns 2% or 3% – but at least the risk of capital loss is minimal. Dividends from banks and other high-yield companies such as Telstra are better – so long as you're prepared to take the risk they will maintain the payout rate and are happy to sit with a possible 20% paper loss if markets keep falling.

The housing markets appear to have had their run in the two largest cities, Melbourne and Sydney, and there has been a lot of development in Brisbane. Yields here are close to record lows, implying that prices are at or near their peak.

There are times in investment markets – especially periods of transition from one phase of the economy to the next – when sitting tight and waiting is the right strategy. This is where the art of timing comes to the fore – and, as I have explained before, I feel I am deficient at that.

Perhaps the real issue with market timing is to accept you may not get it perfectly right. So long as the strategy or individual investment are sound (the business is not going to zero or the property doesn't have too much debt), then time is the real essence.

For example, those people who bought houses in Moranbah or Dysart for upwards of $800,000 during the height of the coal mining boom would be rueing their timing and their strategy. Some of these houses have failed to sell for less than $200,000 in the past year. The same is true for those who piled into BHP Billiton at $35 as oil and iron ore prices started tipping over.

Around the world, economies are adjusting: China is moving from a building phase to a consumption phase; the US is moving from a period of low interest and high growth to lower growth and slowly higher rates; and Europe is moving from one malaise to another, saddled with government debt, the restrictions brought by a common currency and a refugee crisis.

Australia is also changing, from an economy based on building private infrastructure for large mining and energy companies to one where the consumer and the smaller manufacturer will have their day. And perhaps – timing being right – this is where investors need to look: to see the transition in a company such as Treasury Wine Estates, or Bega Cheese dropping a contract to supply cheese to Coles because it can sell processed milk as infant formula to China at much higher prices.

So there are stories to learn about and to buy – but when the timing is right. The secret is trying to find companies that can generate large cash flows compared with the amount of capital they hold. This is why companies that use e-commerce are a hunting ground; it's why medical research and development offers great chances.

But remember that virtually all companies get damaged when general sentiment turns down. Many smaller ones can struggle when there is a drought of capital. Housing markets can quickly run dry and asset values will be reassessed.

Right now is a time to have spare cash on hand and an eagle eye running over balance sheets and company statements for the businesses that can survive and will grow faster than average. You'll be a winner ... if you get the timing right.

Ross Greenwood is Channel 9's finance editor and Radio 2GB's Money News *host.*

Run an eagle eye over balance sheets and statements

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Peace of mind at a price

Life-cycle products cost you investment earnings at their peak, writes Vita Palestrant

ASK CURMUDGEONS NEARING retirement what they want from their super and they'll unhesitatingly say they want high returns and low risk. Life-cycle investment funds give you that – just not at the same time. Life-cycle funds put you in high-growth, high-return investments up to about age 50 and then progressively drop to more conservative investments before retirement to preserve capital. They were introduced in the wake of the GFC, which had hit older fund members hardest.

Chant West director Warren Chant says the idea of a life-cycle fund is appealing: "Generally there's a high percentage – 85% or more – invested in growth assets to start with and from age 47 it starts to decline on a regular basis by about 1% every six months. By the time someone retires there might be only 40% in growth assets."

"You'll recall those retirees in the news with awful stories about how they'd lost 60% of their super because they were in the equity market when it crashed. It gave rise to what we call 'sequencing risk'," says Alex Dunnin, executive director of research at Rainmaker SelectingSuper.

"It's a bit of a wanky term and if you are younger and the market crashes you can recover from it. But if you are going to retire next week and the market crashes today you say, 'Jesus, I thought I was going to walk out of here with $500,000 and I've only got $350,000!'

"So life-cyle products were introduced as a way to say, 'Look, as you are getting a bit older, what about we dial down the growth assets in your portfolio so that if the market does crash, it won't hit you as much?'"

Dunnin says there are about 4 million accounts in life-stage products. "The life-stage market represents about a third of all the dollars in MySuper so it's becoming very big, very quickly," he says.

There is a cost, says Dunnin. "People get the benefit of compound interest as they get older, when they've got big amounts of money in their super. So just as you are building up these big balances, you push money into lower-performing investments. So the compound interest kick of the last 15 years of working life is lost.

"You are really saying you are prepared to sacrifice that money in order to have less risk and less to worry about. Equity markets have a habit of bouncing back, so if you're putting your money into life-stage investing, you're effectively banking on a long-term recession ... if the market doesn't crash, you've made a poor decision."

For a person retiring at 65 or 67, of each dollar spent during retirement, 60¢ comes from earnings in retirement, 30¢ is earnt before retirement and 10¢ comes from pre-retirement contributions, says Chant.

"If you said to a 65-old-year, 'For the rest of your life ... of every $1 you spend 60% of it will be based on earnings from now on,' they might say, 'Maybe I should take a little more risk'."

Chant says people forget to factor in the age pension. "You could say the age pension is an inflation-linked, government-guaranteed annuity. People retiring now have $100,000 to $200,000. Theoretically, the pension's value is about $400,000 – for many people about two-thirds of their portfolio. So for the other third, you don't need to be invested conservatively. You can take a bit more risk."

Vita Palestrant was editor of the Money section of The Sydney Morning Herald *and* The Age. *She has worked on major newspapers overseas.*

LIFE-CYCLE MYSUPER

	FUND		1YR RTN
40 TO 49 YEARS	QSuper Lifetime	PS	11.3%
	Suncorp Lifestage	R	8.5%
	BT Business MySuper	R	7.1%
	AMP MySuper No.2	R	6.8%
	LGS Age-based	PS	6.4%
	Average (all funds)		5.5%
50 TO 59 YEARS	QSuper Lifetime	PS	8.0%
	BT Business MySuper	R	6.5%
	Suncorp Lifestage	R	6.4%
	Sunsuper for Life	I	5.7%
	Bendigo MySuper	R	5.5%
	Average (all funds)		4.9%
60 TO 64 YEARS	QSuper Lifetime	PS	8.0%
	BT Business MySuper	R	6.4%
	Suncorp Lifestage	R	5.5%
	ANZ Smart Choice	R	5.3%
	Telstra Super MySuper	C	5.1%
	Average (all funds)		4.2%

Source: Rainmaker, one-year returns to 30-Sep-15, from APRA data. R = retail; PS = public sector; I = indstry; C = corporate

You might be in a life-cycle fund without knowing it. Default super funds are either balanced funds or life-cycle funds. A default fund is where employer super contributions go if you haven't actively chosen one yourself.

That doesn't mean you shouldn't check on the fund's performance and suitability. "They all look different but they are not hard to compare. You just need to compare them with other funds for the same age group," says Rainmaker SelectingSuper's Alex Dunnin.

The table shows the top five performers for three age cohorts. The same providers tend to dominate: QSuper shows the highest returns for all age groups.

Aim for the magic $1 million

The cost of a comfortable lifestyle is rising, so start saving, advises Sam Henderson

HOW MUCH WILL YOU NEED TO fund your retirement? This may be one of the most important questions you ever ask yourself. Your goals and, more importantly, your lifestyle rely heavily on the answer.

The easy answer is about $1 million. If you have that you will be close to attaining the Association of Superannuation Funds (ASFA) estimated income for a "comfortable" retirement – just shy of $60,000pa without the age pension. (Search the internet for "ASFA retirement standard".) For those reliant on a part pension, $640,000 or more will be close.

ASFA suggests that these assets will produce an income that a home-owning couple need for a comfortable retirement with modest holidays. A more budget-level target is said to be around $34,000pa but there's not much left there for discretionary spending or holidays.

According to ASFA, a single person needs $43,000 for a comfortable retirement and just $24,000 for a more modest retirement, which is around the same level as the single age pension – and on the poverty line. Without sounding too much like a snob, one of my kids' school fees are higher than this! Think about it: $24,000pa is just $462 a week or $2000 a calendar month. In comparison, the average wage is around $75,000pa before tax.

One of the biggest problems for retirees is the rising cost of essential items. A breakdown of the consumer price index shows how the cost of healthcare, utilities, food, alcohol, tobacco and housing is rising disproportionately to non-essential items such as electrical goods, so the overall CPI underestimates essential cost-of-living increases. If you're bringing in only $24,000pa, the falling prices of a new flat-screen TV or mobile phone is insignificant against the 5.3% increase in healthcare this year. With essentials on the rise you must be very careful in managing cash flow.

The "modest" income levels exclude private health insurance, elaborate

holidays, restaurants, expensive haircuts and alcohol and there's little or nothing over to fix a leaky roof. This prospect should provide some incentive to work for longer and save more for retirement.

According to ASFA, $640,000 in super is the magic number for a couple to have a comfortable retirement. But they will likely use up all their super savings and rely on at least a part pension from the beginning of retirement, assuming they're over 65 and have average life expectancy. I reckon the figure should be closer to $800,000, with changes to the age pension assets test coming in on January 1, 2017.

The subtext here is that if you are healthy and likely to outlive your money, you have a savings gap and, if you want to retire early then you'll need far more savings and investments than ASFA recommends.

Australians have $2 trillion in super and need at least another $1 trillion. It's your responsibility to calculate your own savings gap and boost your super, as social security benefits are drying up and the government is set to run deficit budgets for many years to come. Use 5%-7% of your total savings to calculate what income you need: for example, 5% of $1 million is $50,000, 7% is $70,000, so you can draw $50,000-$70,000pa.

The good news is that you're reading *Money* you're already engaged and switched on. But education is one thing; action is another. Just do it! Start implementing strategies that will reduce your tax and boost your savings. Despite the many challenges and changes, super will remain a concessionally taxed investment structure designed to fund retirement and thus it will remain an ideal savings vehicle. So use it to your advantage!

Last month I wrote about seven strategies to boost your wealth in 2016: find your super; salary sacrifice; co-contribution; spouse contribution; super splitting; transition to retirement; and a self-managed fund. These and many more strategies are designed to ensure that you attain your magic million or more by retirement. If you're 15 or 20 years away from retirement, make sure you're adding at least another 5.5% of your salary to super and buy quality growth assets outside super too.

If you're a few years away from retirement, then super splitting, maximising contributions and a transition to retirement pension will add thousands of dollars to your super. Just don't sit back and think the age pension will take care of you because those days are well and truly gone.

If you're single, I reckon you'll need around $700,000 – and $1 million for a couple – to live a comfortable retirement in the next 10 years or so. For longer time periods, with costs rising, these figures will go up by around 3% a year from today and will also change when changes to social security and the age pension occur. Get saving and keep dreaming!

Sam Henderson is CEO and senior financial adviser at Henderson Maxwell and is host of Foxtel's Sky News Business program Your Money Your Call – Retirement. *He is also the author of three-bestselling books.*

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Protection for retirees

Anne Lampe looks at a fund that aims to balance growth and risk

OUR LIFE EXPECTANCY IS RISING and we fear that our money will run out during retirement. So people near retirement are looking for that magic investment formula that offers growth but limits the risk of capital losses, thus allowing them to sleep at night without worrying every time the stockmarket tumbles.

The common stressful decision facing retirees is: should they keep funds in cash or other defensive assets – which limit risks but achieve low returns – or should they accept some risk to keep the nest egg growing to last through retirement.

The Grant Samuel Global Equity Advantage Fund reckons it has the answer.

What is it?

Essentially the fund puts most of its assets in the Grant Samuel Epoch Global Equity Shareholder Yield (Unhedged) Fund, managed by the New York-based Epoch Investment Partners. The global equity yield fund invests in global companies that look after their shareholders; at the same time it uses exchange-traded and over-the-counter derivatives to implement a "volatility overlay" to provide a buffer against downturns. The overlay is implemented by the Sydney-based Triple3, an independent research and investment management firm specialising in volatility.

How does it work?

The Global Equity Advantage fund focuses on what it calls "shareholder yield". Investments are diversified and it says companies must demonstrate financial strength and be committed to paying strong dividends, buying back their own stock and reducing debt.

The more complicated part is the options overlay. The equity bull run of recent years appears to be grinding to a halt. By entering into options contracts that generally move in the opposite direction to the underlying fund, the overlay aims to smooth returns so that the fund's overall value does not fall as far as it otherwise would. When the market turns up the fund can resume growth.

Smoothing the volatility means the fund will not benefit fully from the upside in rising markets. But the compensation is that it reduces the risk of losing gains already clocked up.

Back-testing of this growth and options-overlay formula shows that, since 2008, negative returns were reduced by 40% to 50% while 75% to 80% of the upside was maintained. The aim of the fund is to capture 80% of any upturn in share prices and limit any downside to 60%.

It aims to provide quarterly income derived from two sources: the investment in the underlying fund and income from its options strategy.

How important is timing?

Volatility in markets and the order in which investment returns rise or fall can make a big difference to the capital base once retirees begin to draw on their savings. If their fund has positive returns in the first few years of retirement, they will be better placed to ride out subsequent downturns.

But if returns in early retirement are negative, then proportionally more capital is required to fund living expenses.

This was the case for many retirees during the GFC when they found they were withdrawing from a diminishing capital base. And when that happens, it significantly reduces the possibility of recouping losses over time.

What does it cost?

The annual fee is 1.4% of the balance, compared with an average of 1.2% for an unprotected fund. Retail investors can invest in the fund through a licensed financial adviser.

Anne Lampe has written for The Australian Financial Review *and* The Sydney Morning Herald, *winning a Walkley award in 1991.*

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Grant Samuel Global Equity Advantage Fund

Pros

- Sharemarket volatility is likely to be with us for some time, with world economic growth slowing amid fears that too much debt is held by countries, companies and households. Protecting the super you have accumulated at the start of your retirement is therefore more important now than when share prices were rising. Growth is desirable but so is avoidance of risk.

Cons

- A slightly complicated structure. Some funds with options strategies charge high fees but this fund's are reasonable. Nevertheless, I would never put all my money in one basket, this one included.

My call

- If I were heading into retirement now and with markets even more volatile than they have been in recent months, I would consider it beneficial to have part of my super – but not all – in this type of fund. The partners have a track record of growth, and the fund has a clever – but not hugely expensive – options strategy to smooth out the bumps.

STORY VITA PALESTRANT

SMART moves

Don't leave your retirement savings in an expensive, old-style fund – transfer them now to make the most of the fee revolution

AT THE START OF 2014, the super industry underwent a quiet but important revolution as it tackled new legal requirements for super's default options. That is where employees' contributions go if they haven't exercised their ability to choose a super fund.

Fees dropped by 40% but some fund members are yet to enjoy its full benefits. This is because providers have until July 1, 2017, to transfer $60 billion sitting in old default fund balances across to the newer products.

MySuper products are simple, low cost and easy to compare. They are designed to help default fund members navigate super's complex landscape.

"It was really a way of streamlining super funds and trying to address the fact that people were confused about default products," says Alex Dunnin, executive director of research at Rainmaker SelectingSuper. "At the same time, it was trying to encourage providers to come up with cheaper products."

About 80% of fund members leave it to their employer or union to decide where their super should go. Not-for-profit industry funds have always been cheaper than retail funds, many owned by banks and insurers. MySuper has succeeded in reshaping the market for the better.

"Consumers should have more confidence in MySuper products from a governance and regulatory perspective," says Warren Chant, a director of research firm Chant West. "One of the good things about it is the regulator is keeping a very close eye on them.

"The other thing with MySuper products is they are definitely cheaper. For not-for-profits, it would only be a small drop in pricing but with retail funds MySuper has certainly achieved a significant drop in fees."

Industry funds were easily able to rebrand their existing default funds in accordance with MySuper requirements. For retail funds it was a bigger deal. They reinvented their offerings, setting up new, cheaper products.

This partly explains why retail workplace funds are taking longer to transfer money across from old balances – or accrued default amounts – leaving their fund members in two accounts. But more on that later.

Why fees were slashed

There's a good reason why retail fund fees dropped so dramatically. A ban on financial planning commissions achieved that outcome, says Dunnin. "The average fees paid by people in workplace default super fell 40% overnight. They went down from an average of 1.4% to about 1%. Whoever would've thought that the cheapest public offer MySuper product would be offered by a big bank? If you told me that a couple of years ago I would've laughed."

He says the main driver of super fees is distribution costs. "The second you made a super fund available directly to consumers you halved the price."

Little was sacrificed by that, says Chant, as many people felt advisers did little to earn

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their commissions. "There was only a small percentage of the adviser market that actually did something for their commissions. The average commission was in the order of 30 to 40 basis points [0.3% to 0.4%], so by switching over you're certainly going to save that amount because you can't pay that commission in a MySuper product," he says.

Fees were reduced even further by providers using passive rather than active investments, says Dunnin. "If you get a bit smarter with how you run your investments, you can reduce fees a bit more by bringing in more exchange traded funds and indexing."

While index funds are more popular now, only a few products are 100% passive, such as ANZ's Smart Choice Super, which has an investment fee of only 0.5%. There's also been a bit more inhouse investing and a slight saving on administration costs.

"The main savings are in that adviser commission and the investments," says Chant. And as a result, the default funds – their MySuper funds – run by the banks and insurers have been competitively priced.

His breakdown of average fees shows how close they are.

- Industry funds: average investment fee of 0.65% plus administration fee 0.26%; total average fee 0.91%.
- Retail funds substantially passively invested: investment fee 0.37% plus administration 0.5%; average total 0.87%.
- Retail funds actively invested: investment fee 0.6% plus administration fee 0.53%; total average fee 1.13%

"What we are saying here is there are not huge price differences between them. Retail passive [fees are] actually less than industry funds [on average]," says Chant.

This is a long way from where retail super funds used to be when members could be charged up to 3%. "There's an awareness in the industry that you can't charge the fees you used to charge," says Dunnin. "The revolution we are seeing in consumer prices in every other industry is now catching up with financial services. It's been quite a shock for the industry – the irony is it took so long."

Providers slow to shift accounts

Typically, older employees who have made contributions over many years have more of their super money in the older, high-fee

It helps to know how things work

Robotics engineer Stewart Worrall, 35 (pictured), is mindful of the role super will play in his future financial security. "I've got to live off this when I retire," he says.

A research fellow at Sydney University's Australian Centre for Field Robotics, he's put a lot of thought into how his savings are managed. "We're a bunch of engineers and we like to understand what's going on rather than leaving it to other people."

Originally in UniSuper's defined benefit scheme, Stewart had the choice of switching to its accumulation fund and opted to do so. "My dad worked for the Department of Agriculture and was in a good scheme that guaranteed a certain percentage of his income in retirement. But it was discontinued. He's on that and that's fantastic but you're never going to get that again."

The only thing that irked Stewart is the time limit for switching from the defined benefit scheme to the accumulation fund, after which you can no longer change. "If I'd put it on the backburner, the time limit might have elapsed."

The default fund has delivered good returns (see table, page 62) and he likes the asset allocation. Over the decade it's given members 6.9%pa, which is significantly higher than the average for all default funds of 5.6%.

"I'm fairly risk averse so I definitely wouldn't go in for a high-growth option but I'm not so risk averse – considering we're looking at a 30-year time frame – to consider a more conservative option."

Married with a young family, Stewart isn't contemplating putting more into super. "We've bought a house and we've got three kids and two dogs. And lots of expenses! I'd rather put it into the house at this stage. But the university's contribution rate is pretty good too. It's about 15% so I'm assuming it's a good decision and it will be all right in the end."

default fund. That's good for the provider but not so good for the fund member.

Worse still, many fund members are unaware they are paying two sets of fees on two accounts and the deadline to transfer the money across is 18 months away.

"What some funds have done, retail groups in particular, they've said we're not going to convert our regular old-style default funds into one of these MySuper low-cost things, we'll create a whole new product from scratch which will be a MySuper product," says Dunnin.

"The problem is some funds are transferring old balances across more quickly than others. There's $60 billion in default retail funds that is yet to be rolled over into the their MySuper products. But if you look at it from their perspective, they'll say, 'We've been charging people 2%, or 3% and we want to continue being in the workplace super business to maximise our fee revenue. The last thing we want to be doing is to put everyone into the MySuper division. We want to save that for as long as we can.'"

Chant agrees it's been a long transition for some. "Industry funds did it on day one. Their default fund became a MySuper fund and it was a simple process. With retail funds, the majority of people have two accounts, the so-called accrued default amount and the new fund. It's a little more complicated for them.

"The Australian Prudential Regulation Authority has been keen for them to transfer it as soon as possible. They have to give APRA good reasons as to what progress they are making on transferring it. There is some scepticism out there that says, 'Well, if you are getting much better fees in the old product and advisers are still getting fees in the old product, there is a bit of disincentive for them to do it sooner rather than later.'

"It's really a case of the corporate saying, 'Hey, my staff are in two funds and they are paying more in the older one than the new one.' So they could approach their provider and say they would like them to transfer it over. Some employers have done that but they are not guaranteed the provider will do it straightaway."

"Consumers can **change funds at any time**. We say, 'If you have been paying high fees it's because you want to' "

What you can do

Anyone can move out of one fund into another and consolidate balances. But first check your insurance: does the old product provide better cover?

"If you want to get into the new fund quickly, you need to ring your fund, email your fund, or get online to transfer your fund to that low-cost option. Consumers need to be proactive and take advantage of all the reform and its benefits and the digital revolution happening across all consumer channels," says Dunnin.

"We always say to people, 'Do you know the name of your fund?', and invariably they don't! Consumers need to take an interest to get the full benefit of the price revolution and they need to know they can change funds at any time.

"It's a tough call for people who find this stuff hard but I can't think of an alternative way of doing it. We will often say to people, 'If you have been paying high fees for your super it's because you want to.' Just about every provider now offers a low-cost solution." **M**

Compare your fund's long-term returns

If you haven't chosen a super fund, your employer is obliged to pay your compulsory contributions into a MySuper default fund. It is part of industry reforms introduced by the Gillard government to ensure default funds are simple, transparent and easy to compare.

To comply with the rules, MySuper funds must meet minimum standards: low fees, simple features and a minimum level of insurance cover.

There are two types of default fund: balanced funds or life-cycle funds, which are mainly offered by retail providers (see table). Typically fees are about 1%.

However, cheapest doesn't always mean best, warns Kirby Rappell, research manager at SuperRatings. "It would be better to examine the long-term returns of the product after all fees and taxes. Over the past decade to the end of 2015, the average return for default balanced funds was 5.6% a year. If your provider has not performed well over the long term, it is best to be asking why," says Rappell.

He says that consolidating accounts has become much easier. "The key question is which account you should keep, or do you need a new provider? While it may require some legwork, it should help ensure you are going to be better prepared for retirement. Even if it seems a long way off, you get the benefits of compounding for longer."

TOP PERFORMERS

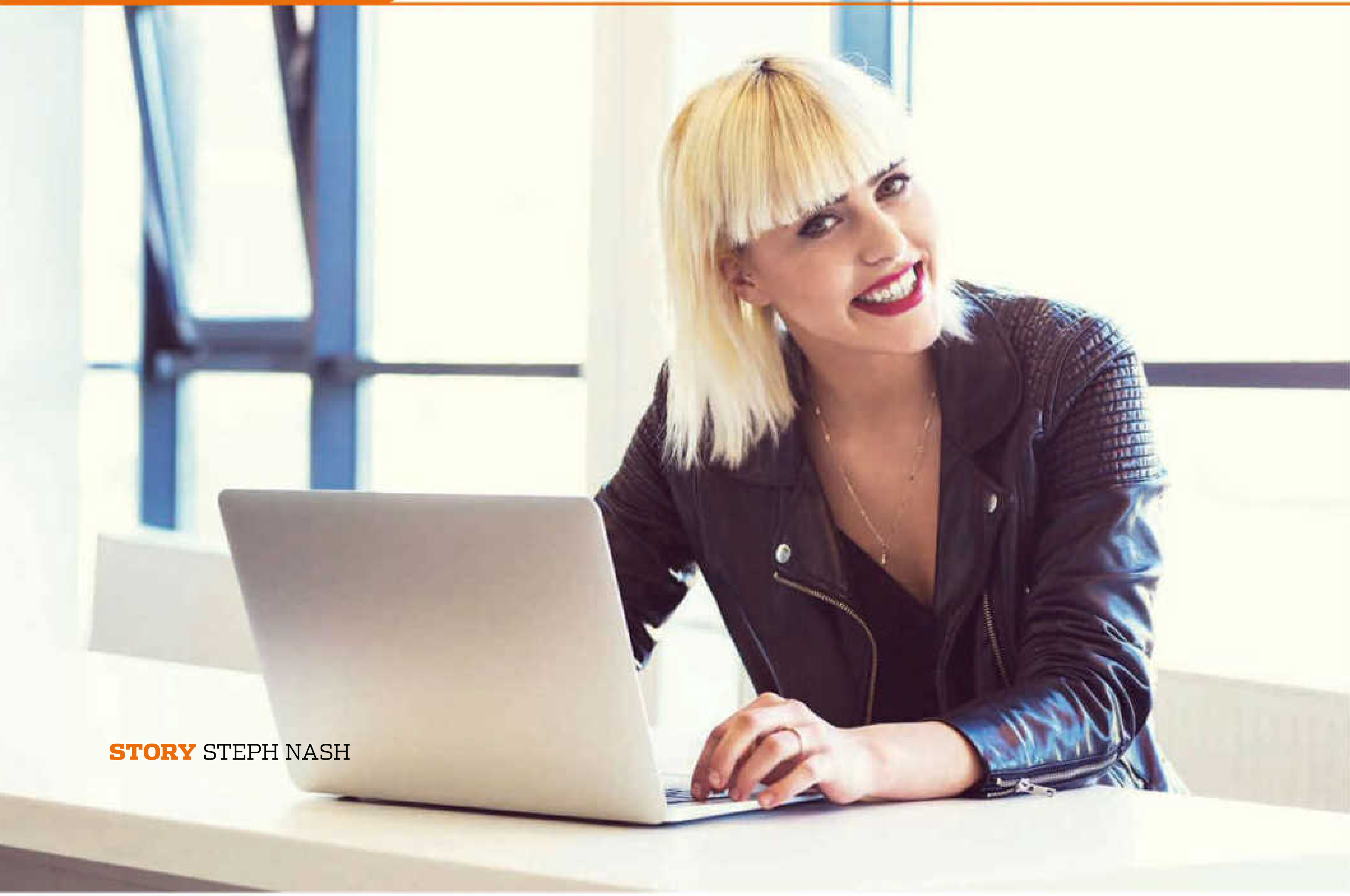
NOT-FOR-PROFIT MYSUPER FUNDS

RANK		1YR RTN
1	MTAA Super My AutoSuper	9.5%
2	BUSSQ MySuper	8.6%
3	UniSuper MySuper	7.7%
4	AustralianSuper MySuper	7.7%
5	Cbus MySuper	7.5%
6	Sunsuper for Life MySuper (Lifecycle)	7.3%
7	Prime Super MySuper	7.3%
8	CareSuper MySuper	7.1%
9	AustSafe Super MySuper	7.0%
10	HOSTPLUS MySuper	7.0%

RETAIL MYSUPER FUNDS

RANK		1YR RTN
1	Aust Ethical MySuper	6.5%
2	Plum MySuper	5.2%
3	AMP SignatureSuper MySuper (1960s lifecycle)	4.9%
4	AMP SDF MySuper (1960s lifecycle)	4.8%
4	MLC MasterKey MySuper	4.8%
6	IOOF MySuper	4.7%
7	ANZ Smart Choice MySuper (1960s)	4.5%
8	Russell SS MySuper	4.3%
9	Aon MT MySuper 50	4.3%
10	Perpetual MySuper	4.3%

Source: Rainmaker as at 31-Dec-15. Funds ranked by one-year returns.



STORY STEPH NASH

GEN Y takes control

More young people want to manage their retirement savings

SELF-MANAGED SUPER tends to be associated with small business owners, primary producers, financial services employees and millionaires. However, a growing number of SMSF trustees are aged between 20 and 30. Research by Nabtrade and the Self-Managed Super Fund Association (SMSFA) shows that one in five SMSF advisers have seen an increase in demand from Gen Y clients, indicating that more young people are ditching retail and industry funds for the more personal do-it-yourself option.

But is an SMSF right for you? There are key questions that young people need to ask themselves before taking the plunge.

Do you have the right mindset?

If you're considering starting an SMSF, you need to know that it's a long and winding road ahead. For some, superannuation is a full-time job, so if you're looking to take control you'll need put in the hard yards, make sure you follow the rules and that you use an investment strategy that is appropriate for your life stage.

Andrea Slattery, CEO of the SMSFA, says DIY funds are ideal for those who already take an active approach to managing their finances.

"I think an SMSF is a perfect vehicle for people that are engaged, want control, want flexibility and have the ability and understanding in how they can get direct services and direct support," she says. "People who know that they have a lifetime of building up their investments to save for retirement – it is a wonderful vehicle for those people that have actually got the capacity and the interest in being engaged and in control."

It's also important to have enough assets in your existing fund before starting an SMSF. Sam Henderson, CEO of Henderson Maxwell, says you need to have a large enough cash balance to be able to safely make investments, especially if you're considering property.

"I'd probably start by making sure they've got enough in their super fund to start an SMSF, which for a young person is somewhere between $100,000 and $150,000 as a minimum. And this is only if they're contributing substantial amounts to super," he says. "The aim is to get over $200,000 pretty quick – that's pretty important for the liquidity of the fund."

Your investment strategy?

It has been a volatile time for the Australian sharemarket. Many investors flocked to cash to protect themselves from any market downturn, abandoning real returns for the promise of security. Cash is a low-risk defensive asset and, while an appropriate asset class for a portion of your superannuation portfolio, too much cash can severely slow the growth of your balance over time.

Research from the SMSFA found that, on average, Gen Y trustees hold 26.5% of their portfolio in cash, which was the highest amount of any age group. It can take from two weeks to a year to roll over the balance from a managed super fund, so this figure might represent a group of young people who are transitioning to their own account. But in any case, cash is not an optimal investment choice for someone who has 40 or more years of investing to go before they can access their super.

Jordan George, SMSFA's policy adviser, says that it's important for Gen Y trustees to make sure they're adopting investment strategies that focus on both long-term and short-term growth.

"Legally, you have to have an investment strategy, and it should be a strategy that helps you in the short term, like making decisions when stockmarkets are going up and down and when interest rates are changing. But also it should be focused on the long term," George says.

"A good investment strategy looks at what are your risks short term but also at what are your goals in the long term and what type of assets might you need to get there."

Andrew Yee, director of superannuation at HLB Mann Judd, says that while it's important to make ongoing cash contributions to your super balance, you also need to make the appropriate investment choices.

"There is no point for a Gen Y in having an SMSF invested just in cash. Cash will not work for them into retirement," Yee says.

"Diversity is the key. There needs to be some cash or very liquid asset to be able to pay taxes and expenses but I imagine Gen Ys will have a higher risk appetite, given that they will not have access to the fund until age 60. Growth assets such as shares or property should be the preference rather than low-growth assets."

Are you buying property?

Property was also a bit of a hot potato in 2015, as prices in Sydney soared to record levels. At the time of writing, the median house price in Sydney is around $1 million, so it's no wonder 20- to 30-year-olds are having difficulty getting into the market.

Investing in property through an SMSF may sound like the ideal solution and it may be the reason you're contemplating starting your own fund but be warned – there are many rules about investing in direct property, including the fact that neither you nor any of your relatives will ever be able to live in it or rent it. Slattery says that you should think about how property could affect your fund in the long term. As with most investments, you should seek advice from a professional before you make any important decisions.

"When you're talking about a particular asset, you need to make sure that, if it's a more complex asset, you actually understand the issues surrounding it," she says.

"The long and short of it is that SMSFs are for your retirement and are for the long run. Any of your current investments and the way in which you build your investments need to be for the long term and need to be for the integrity of your future retirement."

In a worst-case scenario, you could invest in a poor growth area and have unreliable tenants occupy your property. Property can be highly risky, so Henderson says if you're going to invest in direct property through your SMSF you need to have a highly liquid fund to protect yourself against any shortfalls.

"The single most important thing is finding a consistent tenant – you don't want it vacant because you then need to suck up the liquidity or cash inside the fund to cover the repayments," he says.

"You also don't want to borrow too much. You should be aiming to borrow less than 70% of the value of the property, so the loan-to-valuation ratio is 70% or less." You can borrow up to 80% but it's important to put in a substantial amount so you can then pay off that debt really quickly.

Can you afford advice?

The relationship between current Gen Y SMSF trustees and financial advisers appears to be rather strained. SMSFA research shows that 68% of trustees aged 20 to 30 do not receive any financial advice, which is a concern, considering that this age bracket has the largest proportion of cash assets.

Yee suspects that, while ongoing advisory costs are probably too high for younger trustees, financial advisers may also be to blame for preferring older clients.

"Generally, most Gen Ys would need a financial coach or mentor to help them with discipline, focus and direction in order to run a successful SMSF. Financial advisers are around and available for young and old, but I suspect Gen Ys would not be high on the financial adviser's list of preferred clients, because of issues concerning fees and the cost and affordability to clients on a low asset base," Yee says.

"There may be the perception that Gen Ys are not 'easy' or 'sticky' clients, as they shop around, and it may be harder to build trusting relationships with them."

Pros and cons

- If you want greater control and flexibility over your retirement savings, self-managed super is ideal. You can invest in almost any opportunity that you want, and your strategy can be as aggressive or relaxed as you please.
- Super assets are taxed at the low rate of 15%, so with greater investment control comes a better opportunity for you to take advantage of the tax concessions within super.
- You need to have a large balance to make it cost effective. Fees can add up when you address all of your compliance, legal and advisory obligations. RiceWarner says that an SMSF should ideally be left for those with $200,000 or more.
- The rules are very strict. While there is flexibility in where you can invest your super, you must be careful not to break any of the rules for borrowing, lending and investing. Non-compliance can attract hefty fines.
- Making the right investments takes time, and so does keeping up with all the rules and regulations.
- If you need to borrow money through your SMSF, you may be required to sign a personal guarantee. If you default on this, your bank could gain access to all the assets held in your fund, so it's a risky agreement to sign.

There are many issues that new trustees should be aware of, such as compliance and legal requirements and the obligation for tax and actuarial services. This is on top of ongoing investment services. Slattery says there are many components of a successful and compliant SMSF, and that it may be crucial for your retirement that you purchase some or all of these services.

"It's very much about building up all parts of the advice chain. Some may not be important at all times, but they may be important at certain times when you're building your structure and your strategy. It depends on the individual," he says.

And if you're venturing into SMSF property investment, legally you must have financial advice. "The banks don't want people dealing with property inside their super funds with borrowings without seeing a financial adviser," Henderson says. "You're going to need someone – an adviser or accountant – to sign off in the first instance.

"But on an ongoing basis you should definitely have an experienced, professional and ideally as independent as possible adviser managing things for you." (See The Buzz on page 10.)

"The costs certainly won't be changing. I think if anything the costs will be going up rather than down because it costs a lot of money to give advice these days, given the administration and compliance regime." **M**

WHAT IT COSTS

FEE	FUND COMPLEXITY		
	LOW	MID	HIGH
Annual ASIC fee (special purpose company)	$46	$46	$46
ATO supervisory levy	$259	$259	$259
Audit fee	$250	$400	$500
Financial statements and tax return	$694	$906	$1600
Total accumulation	$1249	$1611	$2405
Fee if the fund pays pension	$250	$264	$330
Actuarial certificate	$150	$200	$250
Total pension (no certificate)	**$1499**	**$1875**	**$2735**
Total pension (with certificate)	**$1649**	**$2075**	**$2985**

Source: Rice Warner, February, 2016

CASE STUDY

Josh Geers, 31, accountant , South Australia

Why did you decide to start self-managing your super?
I've had my fund for just under three years. I had an opportunity to invest in a couple of products that were long-term investments that I thought would be a good opportunity for me. I didn't have the equity outside super to make those investments, so I chose to set up a self-managed fund to access some of the equity that I'd built up in my super contributions over my previous 10 years of working.

Do you have a financial adviser?
I do some of it myself and use experts or specialists in other areas to supplement my knowledge because I know there's things I'm not an expert in and where I need some help. In saying that, I run it pretty lean at the moment because I can do a fair bit of it myself.

What was your biggest challenge?
I think that probably the compliance side is a challenge, because there are certain rules and regulations. Make sure you're doing what you're supposed to because there are legal obligations for you as a trustee. The period that I've had my fund has been fairly volatile in investment markets and property prices and it sort of proves to me that the people you're talking to need to be people you trust – whether you're getting formal or informal advice. You really do need to surround yourself with a good set of people.

What tips do you have?
Be clear on why you're setting up your self-managed fund. I think you should also get good advice when you start – pay for good advice upfront, and that sets up a pathway for you to follow. Keeping it simple is also a good idea. Investing in direct property may sound glamorous, but the obligations that go with it and the additional complexity it creates are not necessary. There are so many other ways that you can get property into an SMSF.

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The SMSF Commonwealth Direct Investment Account saves you money on every CommSec trade. It also integrates seamlessly with CommSec and our new online SMSF portal so you can access the latest online trading solutions, investments, management tools and advice in the one place.
See how much easier an SMSF can be at commbank.com.au/smsf
CAN
SMSF
REDUCED BROKERAGE, BECAUSE THE MORE YOU SAVE, THE MORE YOU CAN INVEST.

LIMIT

A fund's long-short strategy can achieve strong returns in a volatile market

STORY PAM WALKLEY

LISTED INVESTMENT company Absolute Equity Performance Fund (ASX code AEG) joined the bourse in mid-December and it gave small investors access to the strategy employed by Bennelong Long Short Equity Fund. That fund's pairs trading strategy has rewarded investors over the long term, returning more than 10%pa above the S&P/ASX 200 since its launch in February 2002.

Both Absolute Equity Performance and the unlisted Bennelong fund are managed by Bennelong Long Short Equity Management, headed by Richard Fish. The big difference between them is that investors in the unlisted fund had to stump up a minimum of $500,000 for the privilege, whereas you can invest in Absolute Equity Performance with $500.

Absolute Equity is one of a small group of listed investment companies (LICs) giving investors access to long-short strategies. Others include Naos Absolute Opportunities (NAC) and Watermark Market Neutral Fund (WMK).

There is a bigger complement of unlisted funds in the long-short space (see page 70). Three of the top four long-term (five-year) performers require a minimum investment of at least $25,000 but Perpetual Share-Plus Long-Short requires only $2000.

Funds based on long-short strategies – which means managers can short stocks they think will fall in price as well as accumulate those that they believe will rise – generally do well in volatile markets, such as we experienced in 2015 and early 2016. The one-year returns for most of the funds have been considerably better than for the overall market. The benchmark S&P/ASX 200 ended the year 2.1% lower.

Investors considering long-short funds should keep in mind that the label covers many investment styles, and some funds are good proxies for the sharemarket's

THE RISKS

performance, such as the Perpetual fund, and others that aren't, such as Equity Performance and the Bennelong fund.

It's important for investors to understand what they want to achieve by including a long-short fund in their portfolio and to know exactly what they are buying, says Tom Whitelaw, the director of fund manager research ratings at Morningstar. Many, such as the Perpetual fund, are typically run by a "long manager" who perhaps shorts around 30% of the portfolio to improve returns, says Whitelaw.

"The manager can add the money he makes from shorting to the long side so, in a perfect world where the stocks perform as predicted, you get a double benefit," he says. "More money is invested in the 'good' stocks you expected to rise and you also make money when the 'bad' stocks you expected to fall in price do. Both [strategies] improve your returns."

Because managers can take advantage of the bad as well as the good, investors have access to different return sources, says Whitelaw.

And shorting can help even out returns in a volatile market, particularly if the manager is taking short positions mainly as a risk-aversion strategy. For investors who want to neutralise market risk, pairs trading is a robust strategy, says Bennelong's Fish. It matches a long position with a short position in two stocks in the same sector, creating a hedge against the sector and the overall market to which the two stocks belong.

"Our aim is to remove every risk you cannot control," says Fish in an interview with *Money*. "The only risk we have is stock-specific risk. We need to choose the right stocks to be long in and the right ones to be short in and this is based on fundamental analysis. It's just simple decisions on a small group of stocks; we are not trying to pick absolute levels of value. Nothing scientific is required, just experience and common sense."

Investors considering these funds should make sure the one they choose has investment team members with shorting skills. "Successful long-short managers have to look at the world differently," says Whitelaw. "They need to dig a lot deeper and look at a lot more detail, which makes them among the best analysts." Whitelaw points to Anthony Aboud, the manager of Perpetual Share-Plus Long-Short, as an example of someone who has been successfully shorting for a long time.

"Perpetual Share-Plus is an attractive option for investors," Whitelaw says in a November 2015 research report on the fund. It employs a 125/25 long-short strategy, meaning up to 25% of the portfolio can consist of short positions. The manager [Aboud] continues to take advantage of Perpetual's research base to look for red flags such as insider selling, chief financial officer changes, or atypical acquisitions that are likely to affect consensus thinking.

"Like the long side of the portfolio, these may be longer-term strategic positions or tactical shorter-term bets. Many competitors in this space use the short sides of their portfolios as a risk-aversion tool; here, though, it's used to seek absolute returns. Although this can magnify idea-specific risks, we are confident that these short positions can add real value over the long term.

"The manager isn't scared to back his conviction and at times has had sizeable shorts in some of Australia's best-known companies. Because of the increased risk of short selling, this strategy is best used as a supporting player in the Australian equity portion of a diversified portfolio," Whitelaw says in the report.

The only black mark against the fund is for its fees which, at about 1.5%, are "materially higher than other wholesale peers".

Listed Absolute Equity's style is a sharp contrast to that of the Perpetual fund. It shares its management with the Bennelong Long Short Equity Fund, which comes in third in five-year performance.

Absolute Equity and the Bennelong fund both use a pairs trading strategy, constructing portfolios mainly of large-cap Australian equities in a market-neutral style . They are designed to achieve absolute returns over the medium to long term, through capital growth and income, regardless of market cycles.

"Investors look at what happened to the US market overnight to see whether they will make or lose money that day; we eliminate that," says Fish. Sectional tilts, such as those happening to the energy market at the moment, are also eliminated. "You could currently be the cleverest investor in energy stocks and still lose money," says Fish.

Unlike the Perpetual fund, Absolute Equity's strategy is not a proxy for the sharemarket. "It's not correlated to the sharemarket or any other investment class," says Fish.

HOW SHORT SELLING WORKS

You believe that the shares of XYZ Corp will fall in the future because its sales revenue is dropping. You call your broker and ask them to find 100 shares of XYZ that you can borrow for a short sale. XYZ's current price is $25 a share and you receive a cash inflow of $2500 after you sell the shares you've borrowed.

Two weeks later, the price has indeed dropped and XYZ shares trade for $20 each. You buy back the shares (known as covering your short position) for $20 each, spending $2000. The broker returns the shares to the person or institution they were borrowed from.

Your profit on the trade is $500: $2500 received from selling the stock minus $2000 paid to repurchase it (ignoring borrowing and transaction costs.)

Using this same calculation, if the shares had risen to $27 during your holding period then you would have lost $200 ($2500 received from selling the stock minus $2700 to repurchase it).

The short sales strategy is risky, including the potential for a margin call as well as theoretically unlimited losses should the underlying stock rise instead of fall. And a short seller of a stock is not entitled to keep any dividends distributed during the period of shorting.

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"It locates the **most attractive stocks** from a vast global universe"

Fish and portfolio co-manager Sam Shepherd, use fundamental analysis to identify relative value opportunities, mainly selecting from S&P/ASX 100 stocks, and seek to unlock this value using 25-40 pairs.

A Wesfarmers and Woolworths comparison illustrates how pairs trading works. The profit and loss impact of shorting Woolworths and going long in Wesfarmers (which owns Coles supermarkets) can be seen in the retail stocks chart opposite, which can be found in Absolute Equity's November 2015 presentation.

About 2½ years ago it came to light that Woolies' margins were too high and it had a litany of management problems, says Fish. "When its share price was around $40 we knew there was some downside, so we shorted it. For a while we lost money because lots of investors liked Woolies, they knew the brand and it had a strong dividend yield." The fund's losses were mitigated because, at the same time, it went long Wesfarmers, which the managers believed was operationally and strategically outperforming Woolworths. And when the effect of discounters such as Aldi on market share and prices became apparent, Woolworths' share price started to fall. "We stuck with our call and it paid off. The luxury of pairs trading is it enables you to persist in your positions," says Fish.

Of course, if an investor had made the incorrect call and was on the wrong side of the Woolworths-Wesfarmers equation over the past year or so, they would have lost money, says Morningstar's Whitelaw.

ACTIVE MANAGERS COMBINE LONG & SHORT STRATEGIES

FUND	APIR CODE	LAUNCH DATE	NET ASSETS	MIN INVT	FEE (%PA)	RETURNS (%PA)		
						1YR	3YR	5YR
Acadian Ws Aus Equity LS	FSF0789AU	27-Feb-06	$17m	$5000	1.10%	6.54%	12.11%	8.39%
Acadian Ws Global Eqty LS	FSF0788AU	20-Jan-06	$23m	$25,000	1.25%	22.88%	30.23%	19.88%
Arnhem LS Australian Equity	ARO0019AU	31-May-05	$4m	$20,000	1.08%	4.01%	12.33%	8.47%
Auscap LS Australian Equities	NAv	03-Dec-12	NAv	$250,000	1.50%	35.97%	36.54%	NAp
Bennelong LS Equity	BFL0005AU	31-Mar-08	$340m	$500,000	NAv	37.12%	16.18%	15.61%
BT Australian LS WS	RFA0064AU	30-Nov-07	$243m	$25,000	0.85%	4.60%	10.87%	8.63%
Ironbark LHP Global LS	HFL0106AU	07-Feb-01	NAv	$5000	1.52%	6.94%	11.03%	8.81%
Ironbark LHP Global LS Ws	HFL0108AU	07-Feb-01	NAv	$500,000	1.27%	7.18%	11.31%	9.09%
Merricks Capital LS Equity	MER0001AU	01-Jan-08	$21m	$50,000	2.00%	1.16%	3.65%	NAv
Naos Emerging Cos LS Equity	NAM0002AU	24-Jan-05	$6m	$40,000	1.27%	10.67%	10.25%	0.50%
Perpetual Ws Share-Plus LS	PER0072AU	14-Mar-03	$980m	$2000	0.99%	7.14%	15.31%	13.38%
Perpetual WFIA Share-Plus LS	PER0495AU	10-Nov-08	$14m	$2000	1.95%	6.07%	14.14%	12.25%
PIC Ws 130/0 Portfolio	MLC0780AU	14-Mar-07	NAv	$500,000	1.24%	6.35%	17.30%	11.42%
Regal Australian LS Equity	RGL0002AU	01-Aug-09	$80m	$250,000	0.80%	21.54%	19.48%	15.80%
Regal LS Australian Equity	AMR0006AU	14-Mar-11	$97m	$50,000	1.00%	20.86%	19.00%	NAp

Source: Morningstar as at 31-Dec-15. Ws = wholesale; LS = long short

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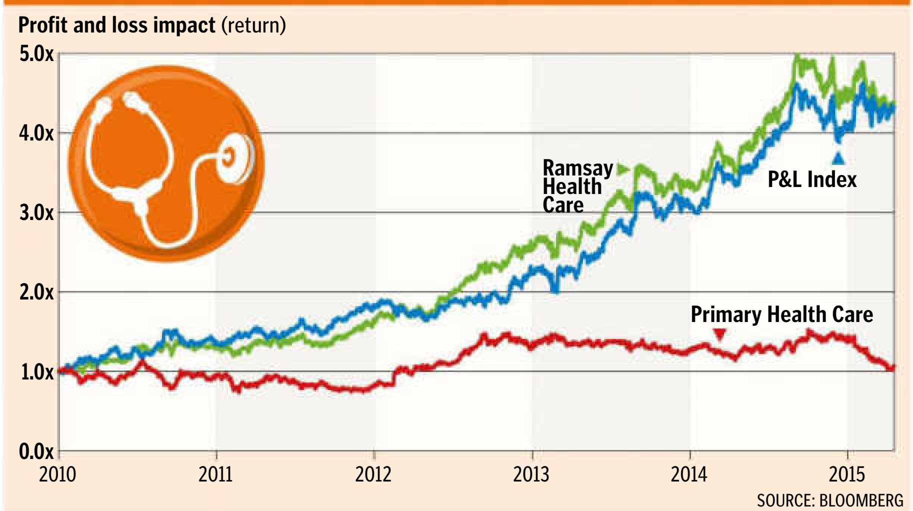
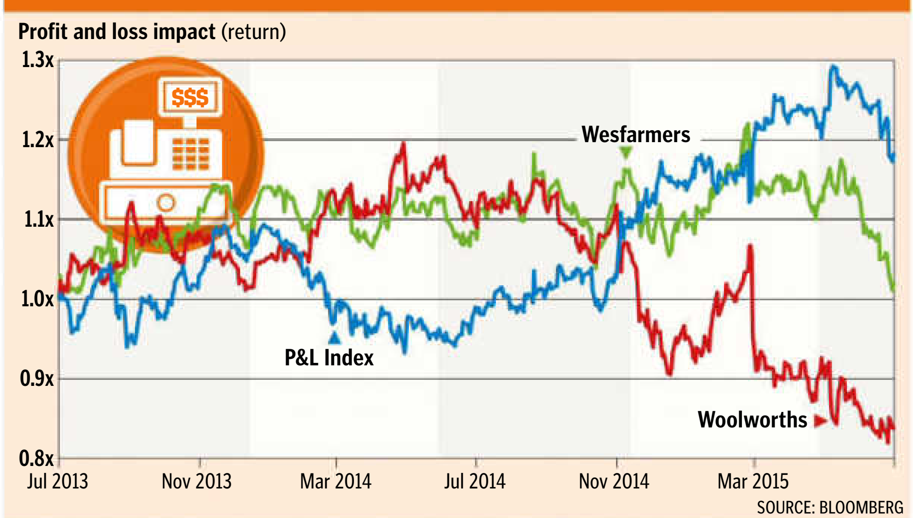
HEALTHCARE STOCKS



RETAIL STOCKS



Ramsay Health Care versus Primary Health Care was an even more profitable example of the successful implementation of a pair strategy by the fund, shown in the healthcare stocks chart. The rationale behind this strategy was that the investment team believed that Ramsay (long) had a superior business model and management team compared with Primary (short), and this would be reflected in longer-term performance.

All the risk for such a strategy is in the stocks picked for the pairing. "It adds considerable diversification benefits to portfolios, which is highly desirable. Market neutral is an extremely effective strategy, particularly when it's supported by a very disciplined process," says Fish.

The proof of this is in the returns generated. The Bennelong fund (July 2008 to September 30, 2015) and its predecessor (Bennelong Securities Management Account, February 2002 to June 2008) have the runs on the board. It has delivered an average return of 18.4%pa since February 2002, more than 10%pa better than S&P/ASX 200 total returns.

It's very early days for Absolute Equity. At the time of writing in late January, investors who got in on the stock's float at $1.10 on December 10 were up 20.5¢ (or 18.6%) on the transaction. Over the same period, the S&P/ASX 200 fell about 5.8%.

The Acadian Wholesale Global Equity Long Short Fund is the top performer among managed funds in the sector over five years, reports Morningstar. "Acadian Global Equity Long Short's quantitative approach seeks to exploit inefficiencies caused by market noise and investor sentiment. The 130/30 portfolio looks to go long on attractively valued stocks with growing earnings, and short on expensive companies," says Morningstar's May 2015 research report on the fund. "The bottom-up, model-based method locates the most attractive stocks from a vast universe of listed global equities, complemented by top-down industry-region comparisons. The valuation process for selecting stocks is based on four broad factors – value, growth, quality and technical."

The Acadian fund is diversified across countries, sectors and companies, says the report, labelling it "a reasonable, higher-octane investment". Its 1.25% annual management fee "is pricier than the peer average. This is especially disappointing as Acadian also charges a 15% performance fee for beating its category benchmark," the report says. **M**

The author holds shares in AEG.

New products have been developed to help you earn an income for life

GO THE

STORY SUSAN HELY

LIVING ON THE INCOME from your investments has never been harder. Cash rates are at 2%, sharemarkets have tumbled – the ASX is down 8% since the beginning of the year. The outlook is for continuing low growth – State Street Global Advisors forecasts developed world equity markets to return 4.4% in 2016 and 6.3%pa for the next 10 years.

For people needing income, the environment creates a real dilemma. Retirees need to keep the cash flowing for the rest of their life. They want investments that are designed to not only give them a measure of safety but good income so that they don't spend the capital and erode their savings too quickly. This calls for a strategy that allows both cash withdrawals and capital growth.

The Murray financial system inquiry called for the development of comprehensive income products for retirement (CIPRs) that feature a regular and stable income stream, longevity risk management and flexibility. The inquiry examined the risk of longevity – or outliving your money. It looked at how the fear of not having enough money discourages retirees from spending much above their minimum pension drawdowns. While this can be a great benefit for the children who stand to inherit what's left when their frugal parents die, it defeats the purpose of the superannuation system.

Some super funds have rolled out income products designed for retirement. But most funds offer the same suite of investment choices in the accumulation phase, such as a diversified balanced default fund and single-asset options.

Most retirees have switched their super savings into account-based pensions, which enjoy great tax benefits but leave investment risk and longevity risk in the hands of the retiree. These products get a big tick for flexibility but a cross for longevity risk management.

Kirby Rappell, the head of research at SuperRatings, says there is no perfect investment solution for retirees and recommends that fund members seek financial advice to suit their circumstances. He says some super funds, such as VicSuper, require members to see one of its in-house financial advisers before they invest in retirement products. Rappell divides super funds' retirement income funds into four categories: annuities, non-guaranteed products to pool risk, the bucket system and specific pension investment options.

Annuities

At one extreme are guaranteed lifetime annuities that protect retirees from investment risk and longevity risk. These are not account-based pensions and they typically lack flexibility. However, their biggest drawback is the relatively modest investment returns. Life companies invest annuity funds conservatively to keep their capital requirements low.

Traditional annuity products offered by life insurance companies no death benefit was payable if you died shortly after commencing

DISTANCE

the annuity. Retirees with dependants generally don't like this aspect.

For this reason, the default design of the Challenger annuity, for example, gives a death benefit equal to the sum invested for the first 15 years. You can reduce this death benefit and you may choose to do so because your income level will be higher. An annuity gives you the ability to convert your mortality into an income premium. For regulatory reasons, the investments underpinning annuities are conservative and this ultimately constrains the level of income that can be delivered.

A number of super funds have adopted the Challenger annuity but rebadged it as their own. In some cases they have tweaked it.

Here is an example of how the Challenger annuity works. Currently a 65-year-old man investing $100,000 would receive a flat annual income from Challenger Life of $4375 with a guaranteed return of capital on death over the first 15 years. The income would be even lower if the annuity income was to continue to be paid to a widow. If you want the payments to be indexed to inflation, instead of flat, the income would fall to $3311.

These relatively modest outcomes are due to the investment environment and regulatory constraints. If you have plenty of capital on retirement, a lower return is not a problem and the complexities of investment decisions bother you, this product may be appealing. To reach the comfortable living standard set down by the Association of Superannuation Funds of Australia, a single person would need $1.3 million in the indexed Challenger annuity.

When you hand over your money to buy a guaranteed annuity, you rely on the insurance company being around for the rest of your life. If the regulator, APRA, is vigilant in ensuring companies conduct themselves conservatively, that is a reasonable bet. But keep in mind that the government does not guarantee life insurance companies in the same way it does bank deposits. Also, unlike super investments, it is not easy to observe how the money behind the annuity is invested.

Pooling risk

The actuaries at Mercer have developed a product, Lifetime Plus, that allows you to pool your longevity risk with others. It is available directly from Mercer and also through Media Super. The investment side is simple, aiming at modest cash returns plus 1% after fees.

The income you receive from this product has two other elements. The first is capital return of 2.5% of your initial investment per year for a maximum of 20 years, which commences after 15 years, providing you are older than 75. The final element is described as a "living bonus payment".

If members withdraw from the pool for any reason – including death – they leave behind an amount equal to 5% of their initial investment plus investment earnings and living bonus payments received after 75 of age. This pool is allocated twice a year across the existing members.

The formula that determines your share takes into account a range of factors including your age and how long you have been invested. This design backloads the contribution of the living bonus payment to your later years when your account-based pension may have run out. You will get something for as long as you live, but it's hard to say how much that will be. Compared with a standard life annuity, it isn't quite so clear what you get, but the pattern of income over time is suited to longevity protection as it is weighted to later years.

It is a managed investment scheme and nothing is guaranteed. This means that Mercer Investments is not subject to the capital requirements of a life insurance company.

What happens if everyone starts living a lot longer? With the Mercer product, the living bonus payments get diluted. With a life insurance annuity, payments are unchanged.

A common advice template is to combine the flexibility of an account-based pension with the backstop of an annuity. You enjoy a comfortably high living standard for a period until you exhaust your account-based pension, then you fall back on the annuity as a supplement to the age pension. If this is your plan, you need to ensure that the income from the annuity is meaningful, given you have placed only a portion of your assets there, and that the step down after exhaustion of the account-based pension is not ridiculously steep. At 75 you will be less active but, hopefully, not ready for aged care and still enjoying life.

A criticism of account-based pensions is that they don't explicitly manage longevity risk. Once you start running down your capital and you are drawing income in excess of investment earnings, it will eventually run out. If you want a more accurate estimate of when it might run out you could invest conservatively. Or you could invest more adventurously but how long you can draw income will be highly variable. A financial planner's estimate that your super will last 15 years if you draw down at a certain rate could easily be out by five years either side, possibly making you dependent on the age pension long before you anticipated. The flexibility of account-based pensions is a two-edged sword and some super funds have come up with a more structured solution.

Bucket funds

Several funds offer a "bucket" system. Some of your money is parked in cash – say two years' worth of pension payments – with the balance invested in growth assets. The idea is that you can sleep easier because you are unlikely to have to sell shares in a market dip to pay your pension. This enables a more growth-oriented investment strategy that in theory is more appropriate for the long term.

Catholic Super, a public offer fund, has a sophisticated version of the bucket system

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WHAT'S ON OFFER

ANNUITIES

- **VicSuper Guaranteed Income for Life and Guaranteed Fixed Term Income**
vicsuper.com.au
- **QSuper Guaranteed Term Annuity**
qsuper.qld.gov.au
- **Local Government Super**
lgsuper.com.au
- **CareSuper**
caresuper.com.au
- **Legalsuper**
legalsuper.com.au

NON-GUARANTEED PRODUCTS THAT POOL RISK

- **Mercer LifetimePlus**
mercer.com.au
(Media Super also introduced Mercer's LifetimePlus in August 2015)

PRODUCTS THAT INTEGRATE OR COMBINE MULTIPLE INVESTMENT STRATEGIES

- **Equip MyPension product**
equipsuper.com.au
- **Australian Catholic Super Retire Smart**
catholicsuper.com.au

SPECIFIC PENSION INVESTMENT OPTIONS

- **NGS Income Generator**
ngssuper.com.au
- **Catholic Super RetirePlus**
catholicsuper.com.au

Source: SuperRatings

Account-based pensions using the bucket system can **exploit the high yields** from growth assets

where money is transferred from the growth bucket to the cash bucket based on investment income (that is, interest, dividends and rent) and excess capital gains. This functions as an asset-allocation rebalancing framework. When markets are buoyant, profits are taken. If the cash bucket gets too full, money is reinvested back into the growth bucket. The investments of the growth bucket can be configured using available investment choices, or alternatively there is a default portfolio oriented towards investment income generation.

Equip MyPension has a minimum investment of $50,000 and offers a bucket approach, allocating to cash, conservative and growth multi-manager buckets, with the pension income drawn from the cash bucket.

If you draw down an arbitrarily high pension that eats through your capital, the bucket system can't save you and you will eventually run out of money. However, if you match pension payments to the investment income of the growth bucket, supplemented by the interest earnings of the cash bucket, the system should be reasonably stable. Pension payments at that level could continue indefinitely so that longevity is not a worry. However, in later years minimum pension requirements may force you to draw down a little more than the income generation of the growth portfolio. As well, the level of investment income transferred between buckets is likely to increase over time if the growth capital is not depleted for pension purposes. This type of product is likely to be attractive for more sophisticated investors who understand the potential volatility of growth assets and the characteristics of investment income.

Lifetime annuities are underpinned by conservative investments, dominated by bonds. Account-based pensions using the bucket system can exploit the higher yields available on growth assets. The current long-term bond yield is less than 3% and the official cash rate is 2%. The dividend yield on the S&P/ASX 200 is just under 5%. Franking pushes the gross yield to around 6.5%. Even if BHP Billiton cut its controversial dividend to zero, the market average gross dividend would still be 6%. Property trusts yield around 5%.

The basic difference between dividends and interest is that dividends grow with earnings while interest stays flat. For most of our lives, interest rates have been much higher than they are now and usually higher than dividend yields. But hitching our retirement incomes to the dawdling interest rate wagon today will inevitably constrain income in retirement. **M**

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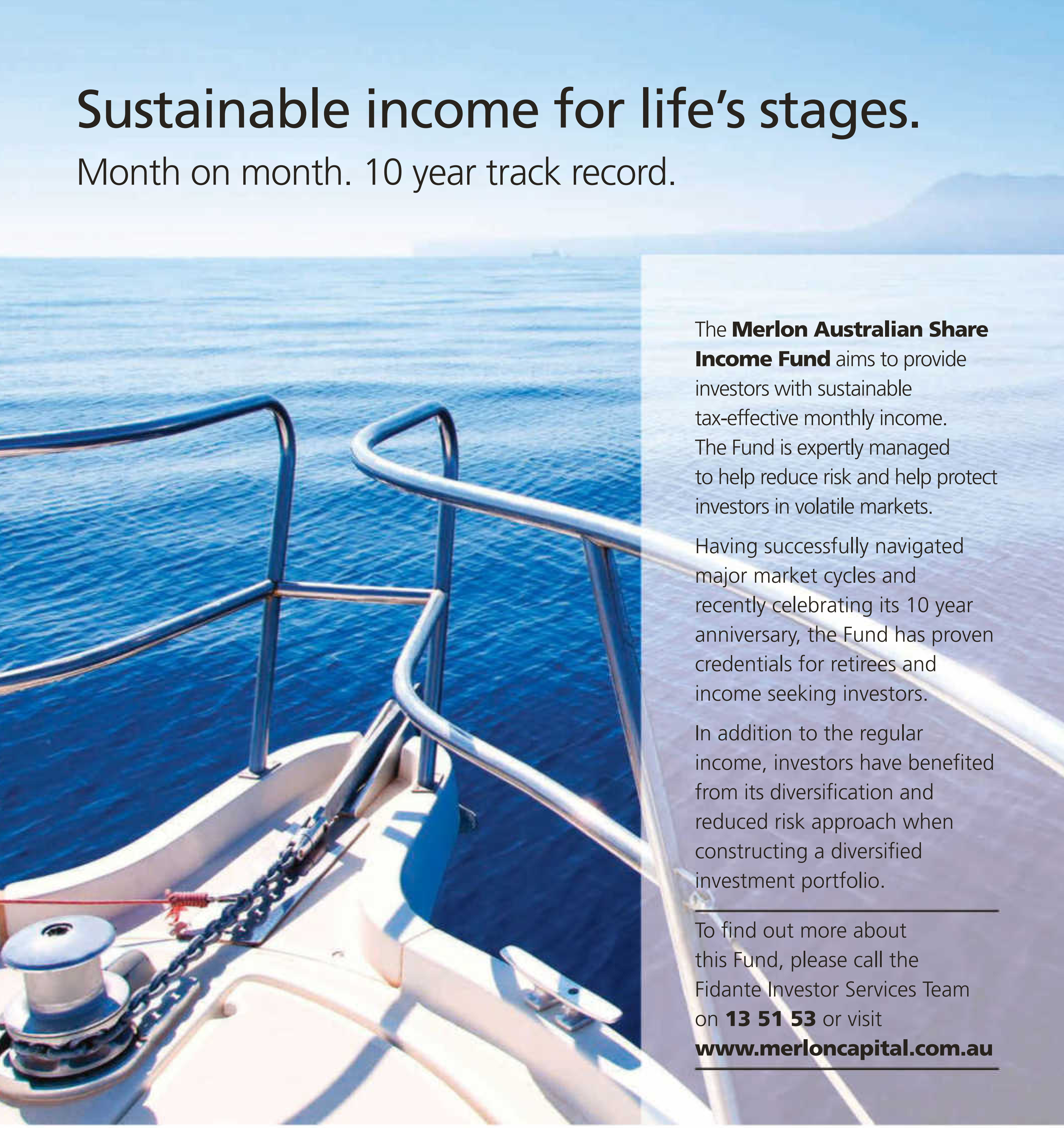
Sustainable income for life's stages.
Month on month. 10 year track record.
The **Merlon Australian Share Income Fund** aims to provide investors with sustainable tax-effective monthly income. The Fund is expertly managed to help reduce risk and help protect investors in volatile markets.
Having successfully navigated major market cycles and recently celebrating its 10 year anniversary, the Fund has proven credentials for retirees and income seeking investors.
In addition to the regular income, investors have benefited from its diversification and reduced risk approach when constructing a diversified investment portfolio.
To find out more about this Fund, please call the Fidante Investor Services Team on **13 51 53** or visit **www.merloncapital.com.au**

Novice investor tests the water

Steph Nash overcomes her doubts to buy her first parcel of shares

IF THERE'S ONE THING I KNOW ABOUT people, like me, in their early 20s, it's that we're sceptical about everything. When we think about investing, we tend to adopt a pessimistic stance: the mining boom is over; the Aussie dollar is weak against the US dollar (more of a travel inconvenience for us); China had a rough time last year; and our stockmarket has suffered.

You'll have to forgive us for not jumping at the idea of taking a bit of a gamble – it doesn't make an ideal environment for a first-time investor.

Despite my anxiety, I made my first investment in December last year. I live in Sydney and would eventually like to buy a house. Since I don't have $200,000 in savings I'm looking for other ways to turn my loose change into a home deposit (the measly 2% interest on my savings account doesn't quite cut it).

What did I do? I decided to invest in an exchange traded fund (ETF). My particular fund tracks a sharemarket index. Units or shares in an ETF are bought and sold on the stock exchange, allowing you to own a small portion of the fund's asset pool.

There are a few advantages to ETFs as opposed to, say, individual shares or an unlisted managed fund. First, they're a simple way to invest, and you're not placing all your eggs in one basket because most hold diversified portfolios – ETFs give you exposure to a range of underlying assets.

Second, ETFs are low cost. ETFs are mostly passively managed, so they don't attract high management costs. Third, they're easy to buy, sell and track, as they're listed on the ASX.

Purchasing shares in an ETF can be pretty tricky for first-time investors, as there's a particular etiquette involved. These days you can use an online broker to facilitate your trade. Fees are around $20-$30 for each trade, so it can be pretty expensive if you're constantly upping your holding in small parcels. I regretted almost immediately buying only $500 worth of shares in my ETF because I knew that over time I would want more.

When you buy a security through a broker, you have to select what type of order you would like to place. A market order means that you would like to buy your units at the best available price at the time your request reaches the market. This takes place almost immediately, so it's a great idea if you want to get in quick. A limit order allows you to set the price you're willing to pay. Your broker then sets out to find someone willing to sell their shares at your price limit or better. And then voila! You're an investor.

> I was losing money every day. I wanted to walk away.

I ended up investing $500 in Vanguard's US Total Market Shares ETF (ASX code VTS), which seeks to track the performance of the CRSP US Total Market Index. The ETF happens to be *Money's* best international share ETF of 2015. At the time of my trade, research from Goldman Sachs told me that US equity prices were the highest they'd been in seven years. Janet Yellen, the head of the Federal Reserve, also got my spirits up by announcing that the US was officially out of recession.

But I didn't expect the CRSP index to trend down so much, so soon after Christmas. It seemed that, just like the S&P/ASX 200, my ETF was losing money every day. That's tough to stomach for a first-time investor. I wanted to pull out and walk away. But then I remembered advice about the long haul: if you're looking at the progress of a security, you should always check how it has fared over the past five years. The long-term performance should speak louder than short-term figures.

Of course, this isn't the be-all and end-all of picking a good investment. There are many things that come into play, such as the world economy, international politics, company activity, fluctuating currencies ... the list goes on. But investing definitely isn't as scary as we think it will be – it's actually quite exciting. At this stage, I'm still very much a novice but I'd like to think that over time I'll learn more and turn my metal into gold. I doubt I'll be an alchemist by next month's issue but stay tuned for my next column on lessons learned as a long-time renter.

Steph Nash is staff writer and has a Bachelor of Communications degree.

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IPO PIPELINE

Healthy outlook for floats

Marcus Ohm
Partner, corporate and audit services
HLB Mann Judd, Perth

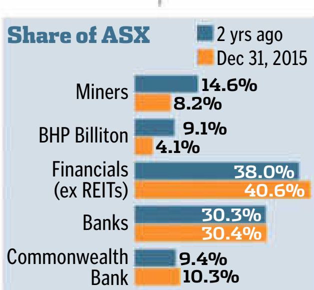
There were 85 new initial public offerings on the ASX during 2015, raising $7 billion among them. While individual performances varied, the average increase in share price across all new IPOs in 2015 was 10%, which compares with the S&P/ASX 200's 2% decline over the year.

In all, 69% of companies logged first-day gains in 2015, which was up from 55% in 2014.

The past two years have been very different in terms of the type, scale and value of IPOs and this diversity is expected to continue. Although market volatility may affect the pipeline, IPO activity was looking healthy at the beginning of the year, with 20 companies planning to list. Although mining dominated the IPO scene previously, this sector will continue its decline, to be replaced with an increasing representation among technology, software and start-up industries. Service industries will also play a larger role – a trend that emerged in 2015.

Tips for IPO investors include:

- Align with your broker– they can provide good opportunities to invest in the IPO market.
- Research. Although there were some very good performers last year, some companies experienced significant losses. Make sure you understand the risks.
- Access. Participating in some IPOs can be difficult. Through a company such as OnMarket BookBuilds, individual investors can access research and participate in IPOs via a website or app.



SOURCE SSGA, JANUARY 2016

Single-digit return tipped

Investors can expect a dividend yield of 5% from the S&P/ASX 200 which, with mid-single-digit earnings per share growth for the market (excluding resources), should provide a high single-digit return in 2016, predicts Brad Potter, head of Australian equities at Nikko Asset Management Australia.

Potter expects resource company prices to tumble by 46% while banks and industrials will rise by 5%. He says banks are beginning to look interesting after the substantial capital raisings in 2015 but they will need substantial amounts of capital this year. "This increased capital has a significant dilutionary impact on return on equity, earnings per share, dividends per share and ultimately valuations." Potter says Nikko has increased its underweight position in banks.

With iron ore prices remaining weak, Potter sees no value in the miners. But he says value is emerging in a number of energy companies based on an assumption that long-term prices will be higher than those today.

The Australian sharemarket is trading slightly below the one-year forward price-earnings ratio seen in low-inflation periods, says Potter. "The very low interest rate environment should support higher price-earnings multiples and, in combination with the earnings yield versus interest rate yield gap, implies that the market looks cheap versus alternative investments."

The Australian sharemarket seems about 20% undervalued if you look at price book ratios and Potter says value is opening up across a number of stocks and sectors. He particularly likes education, tourism and agricultural companies that are benefiting from Chinese consumption.

Mergers and acquisitions are likely to be a continuing force, he says. SUSAN HELY

INSIDE SHARES THIS MONTH

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Proceed with caution

Investors will need to pick the right sectors and themes, writes David Bassanese

IT'S FAIR TO SAY THAT GLOBAL sharemarkets have gotten off to a bad start so far this year, reflecting a welter of worries, from rising US interest rates to falling Chinese demand for key commodities. Although the local and global economies do not seem as bad as markets fear, the problem is that equity prices do not have much margin for safety due to already elevated valuations and faltering corporate earnings.

The S&P/ASX 200 Index lost 5.5% in January alone to be down 6.1% over the past year. Excluding the 4% return from dividends, our market lost 10% over the past 12 months to the end of January.

The weak performance largely reflected hefty downgrades to resource sector earnings due to the near-collapse in coal and iron ore commodity prices. Earnings and price performance in non-mining sectors were better, in line with their relatively better economic performance.

Heading into 2016, it seems likely that equity markets will continue to struggle this year, though that does not mean investors can't make money by picking the right sectors and investment themes.

One negative is that risk remains to the downside for commodity prices and resource sector earnings. Chinese demand continues to slow while the supply of key commodities such as iron ore is slated to expand further.

The good news for the local market, however, is that markets do eventually "look through" earnings weakness, and history suggests mining-sector share prices will bottom well before commodity prices do. In the meantime, thanks to its sharply falling market capitalisation, the mining sector's performance is of lessening importance to the overall market.

The search for yield should remain popular

Looking at the economy, the big drag is likely to remain the continued steep decline in mining investment, while non-mining investment is also subdued. That said, non-mining business confidence is lifting due to the more competitive Australian dollar and strength in home building.

Hiring intentions also suggest employment growth should remain reasonably solid, thanks to particular strength in domestic services, tourism and education. Although overall economic growth should remain sub-par over the next few months, the unemployment rate may well hold below 6%, in which case the Reserve Bank won't feel compelled to cut interest rates again any time soon unless there is a major global shock.

And, of course, a shock is always a possibility. Although the global economy continues to expand, one risk is the impact of a rising US dollar – thanks to the relative strength of its economy – on emerging markets which, unlike Australia, are less able to deal with currency weakness due to the risk of higher inflation and foreign debt repayment problems. Another risk is a deeper slowdown in China, which could send commodity prices and the $A much lower. A final risk is that the US economy itself slows, which might reduce the global risks of a rising US dollar but replace it with the risk of weaker US corporate earnings and a deeper Wall Street correction.

All up, investors will likely need to approach the next few months with caution. Given downside risk to commodity prices and the Australian dollar, unhedged exposure to international markets and currencies may be a useful source of diversification. Locally, high-yielding defensive exposures – as in the financial sector, utilities and consumer staples – along with healthcare may provide relatively more protection against global risks. With local interest rates likely to remain relatively low, the search for yield on the Australian equity market should remain a popular theme among investors.

And those investors seeking added protection might consider the growing array of "managed risk" investment funds now available (including those in exchange traded products form), which aim to provide exposure to the growth and income opportunities afforded by shares (especially given today's environment of low interest rates), while providing the potential for reducing the volatility of the equity investment returns and cushioning downside risk.

David Bassanese is chief economist at BetaShares.

End of the golden run

Unhedged international equities have lost their safety net, writes Marcus Padley

THERE HAS BEEN A HUGE TRADE over the past three years in Australian retirees buying unhedged international equity market exposure, particularly US, and taking advantage of the fall in the Aussie dollar and the rise in international equities.

But I was reading a listed investment company (LIC) report in February and it noted that its coverage list of international LICs had underperformed the MSCI World Index (a proxy for what this group of LICs should have done) by 5.4%, not over 2015 but in January 2016 alone. In one month. Clearly some Australians are bailing out of the international bet.

I have also noticed recent broker recommendations to sell Magellan Financial Group (ASX code MFG) and we have all seen the share price take a turn for the worse. The bottom line is that, after the recent falls in international exchange traded funds (ETFs) and LICs, you do have to ask whether the golden run in international investment for local retirees (and other investors, of course) is over.

While the Australian dollar fell from US110¢ to US70¢, unhedged international ETFs and LICs didn't have to return anything from their investments for Australians to make money; they made it on the currency.

But they did make money on their investments, with the US equity market going up 21%pa for the five years to March last year. It has been a golden period: investors could have made 50%pa for three years in a simple S&P 500 ETF.

While I see no reason – during a commodity price slump – for the Australian dollar to bounce, I do feel the bulk of the currency depreciation is over. The evidence for that is that it has held firm recently while commodity prices and the resources sector have continued to get smashed. That tends to suggest that the damage to the Australian dollar has been largely done and the bet against it has pretty much played itself out. It's a dead horse – and it's already been flogged. The diminishing expectations of another US rate rise are a second factor for thinking it could stabilise.

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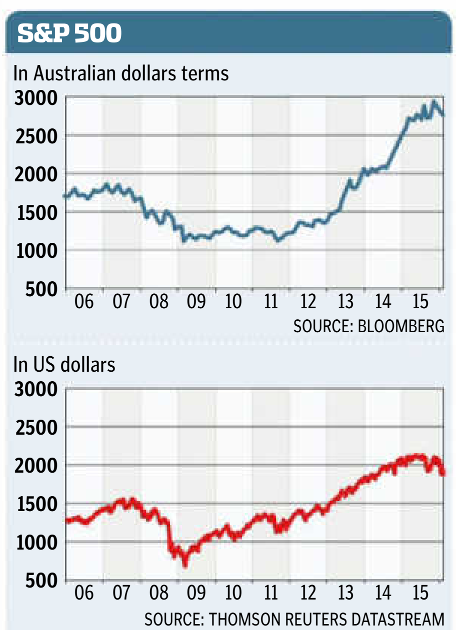

I believe that, on balance, the $A will probably weaken over the year. I just feel that the need to get your money out of Australia and into international markets is becoming less urgent. The depreciation of the dollar is becoming a secondary, not a driving, factor and this is being – and will be – reflected in ETF and LIC pricing. The ETFs are largely passive so they simply reflect the markets but the LICs (more actively managed) are already moving from a premium to a discount.

If the most important factor in international investment is no longer the currency, my point is that it comes down to a judgement about what the international equity markets are going to do, not what the currency is going to do. And when it comes to markets, especially the US, the outlook is highly uncertain.

So I put it out there that this trade – let's call it a "crowded trade" (although I hate the expression – it sounds like a stockbroker trying to sound like a high-flying Wall Street banker) – is becoming less crowded and the time might have come to consider international investment as a function of equity markets rather than a necessity driven by the falling Australian currency.

The local currency factor may still work in its favour – it is unlikely to work against it – but it is probably safer to assume that it will have little impact this year and so the safety net has gone. Whether you hold international LICs and ETFs now comes down to what the markets are going to do.

On that front, ask yourself the question: Would I buy the S&P 500 at the moment?

I think you can answer that.

Marcus Padley is a stockbroker and the author of the daily stockmarket newsletter Marcus Today. *For a free trial of the newsletter go to marcustoday.com.au.*

Digging deeper into company accounts can reveal the opportunities others miss

Hit the jackpot

STORY GREG HOFFMAN

WHAT WOULD YOU make of a company with a track record of profits like that shown in the chart opposite? If you're like most investors, the answer is probably "not much".

Professional analysts, in my experience, struggle with companies that haven't produced steadily rising profits. That's because they like to bang such numbers into their spreadsheets and extrapolate past growth into the future.

Yet sometimes things are not quite as they seem on the surface. The numbers used in the charts are those of Jumbo Interactive – a company I've held for five years in the portfolios I manage and one I've been buying more of lately.

I wrote about this stock in the October 2012 edition of *Money*. To save you looking up that column, I'll recap. Jumbo sells lottery tickets online and, quoting that previous column: "Compared with lining up at the newsagent, or the prospect of a pocketed winning ticket going through the wash, playing the lottery online makes plenty of sense. In the same way those who've moved to paying bills online will never go back to lining up for the task at the post office (as my 69-year-old father continues to do, for reasons best known to himself), once people begin playing the lottery online, they tend to stick with it. This is no fad and Jumbo has more than 1.38 million customers on its www.ozlotteries.com database."

All of the above still holds today except that my father is now 73 and Jumbo has more than 2 million customers. So why has the company's profit evaporated over the past four years?

This is where delving more deeply into the accounts can pay off. A look at the group's revenue shows a healthy growth trend, so it's clear that Jumbo's problem has to do with costs, not income.

Chase the detail

One analytical angle I look at when I'm researching is a company's "segment reporting". Nowadays I read almost all annual reports as a PDF on my computer, which makes it easy to search for "segment reporting". (Actually, I usually just search for "segment" and scroll through as some companies use slightly different terminology, such as "segment disclosure".) So what is this all about?

Segment reporting relates to the way management categorises the various parts of the business. For instance, Woolworths splits its operations into five segments: Australian food, liquor and petrol; New Zealand supermarkets; general merchandise; hotels; and home improvement.

It's always worth chasing this detail for any company you're analysing. And it can often be buried towards the back of the annual report. Sometimes you'll find that one product or division is responsible for most of the company's profits and another is a real problem.

Time is better spent **looking at these numbers** than in queuing up for a lottery ticket

Using Woolworths as an example, you may not be surprised to learn that its segment reporting revealed that its "home improvement" segment lost $224.7 million in the 2015 financial year while its Australian food, liquor and petrol segment made a profit of more than $3.4 billion. Knowing that information puts more context around Woolie's current attempts to sell its struggling Masters business.

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But let's get back to Jumbo and why it's so interesting. For Jumbo, the interesting segment breakdown is not by business line but by geography. Management has had stars in its eyes for some time, wanting to repeat the success it's enjoyed in Australia in other countries. As is so often the case, that has proved an elusive and costly goal for shareholders.

Forays into America and Mexico have been unsuccessful but by far the worst damage has been caused by the company's push into the German market. In Deutschland, the home ground advantage belongs to a group called Lotto24, which has wiped the floor with Jumbo.

Jumbo's segment reporting shows that it generated just $172,157 in revenue in Germany in the 2015 financial year and lost $3.6 million after incurring substantial costs. And that was after a $1.1 million loss was incurred there in 2014.

Yet, if you're poking around in that part of the annual report (it's note 28b to the accounts – so you really have to look for it), you can't help but notice the numbers from the original "internet lotteries Australia" segment.

While losses in Germany were blowing out, the Australian business managed to pump out a steady $8.1 million in profits (before tax) in both years. So while the company's overall net profit was going backwards, that was the result of two very different trends.

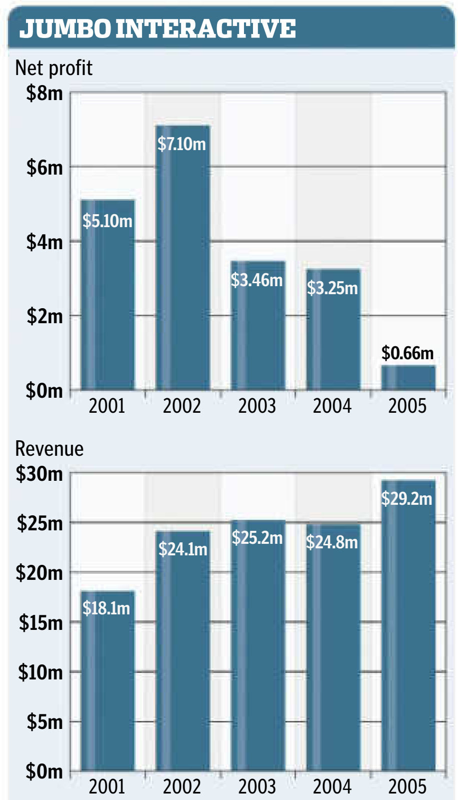
Uncover the gem

I think the Aussie business is a gem that is worth something between eight and 12 times its pre-tax profit. That's between $64 million and $96 million, in rough terms (it would be far more if Jumbo weren't reliant on reseller agreements with Tatts Group).

The company also has a hefty cash balance of more than $17 million and no debt. Adding that to my valuation of the Australian business brings me to a range of $81 million to $113 million. But I don't expect Jumbo to be successful in Germany, so there's a question of how much money might be lost by management over there before it gives up.

Costs have already been reduced in Germany but Jumbo could still lose another $6 million or $8 million over the next few years before packing it in. The database of German customers it has acquired could possibly be sold, which might recoup some losses, but I have excluded that from my calculations to be on the safe side.

So, being conservative, let's remove $12 million from the valuation to allow for future losses there plus sundry red ink from other overseas adventures. Making that adjustment brings my low valuation to $69 million and my high valuation to $101 million. Dividing by 44 million shares on issue, I arrive at a value per share between $1.57 and $2.30.



That range and the recent share price levels, at less than $1.10, make Jumbo a steal in my view.

You could only uncover this opportunity by appreciating the value of segment reporting. Looking into these numbers takes a bit of effort but it's time better spent than queuing up for a lottery ticket. And with a bit of elbow grease, you might just hit the jackpot by finding another bargain such as Jumbo Interactive.

Greg Hoffman is an independent financial educator, commentator and investor. He is also chairman of Forager Funds Management. Disclosure: Private portfolios managed by Greg Hoffman own shares in Jumbo Interactive.

Top 5 global stocks

STORY CHRIS BATCHELOR

Diversify your portfolio by looking beyond the local market

WE HAVE HAD ONE of the most negative starts to the year on the sharemarket. The S&P/ASX 200 Index fell 5.5% in January, on top of the 2.1% fall over 2015. Times like this can cause us to run to the hills in fear or enliven us with a sense of opportunity. The best time to buy shares is when the prices are low, not when they are high.

The more widely we spread our investments, the more insulated we are against risk. The local market has been particularly hard hit of late, in part due to its large resource stocks exposure. As global prices for resources such as oil and iron ore have plunged, so too have the fortunes of most of our large miners. BHP Billiton has fallen 43% since the start of 2015 (allowing for the South32 spin-off) and Santos 56%.

The ASX offers limited opportunities beyond financial and resource stocks but local investors can now take advantage of the many global market opportunities. World markets do not move in perfect sync with each other – perhaps surprisingly, Europe was a top performer in 2015. At a stock level, some businesses are always doing well, so the bigger the pool we choose from, the better our chances of finding them.

Luckily for Australian investors, Skaffold's stock research doesn't just track and report on every ASX-listed stock. It also covers thousands of the world's largest companies. With Skaffold doing all the hard work, you can confidently expand your investment universe. All you need to do is set up a global trading account to start diversifying your portfolio.

For five years, Skaffold has produced a Top 5 portfolio for *Money*. We thought it would be interesting to apply that process to the major global stockmarkets and see which stocks came up. Again we used Skaffold's powerful stock filters and, to keep the portfolio well diversified, we only selected the stock with the highest discount when there were two or more similar stocks in a market.

Although our focus is global, top stocks look the same regardless of where they are listed. Whether international or local, a simple checklist will help you build a strong portfolio: Does a company make profits? Has a business been well run? Is its net debt-to-equity ratio low? Is its intrinsic value forecast to grow? Does a business generate more cash than it spends? Does the share price compare favourably against the intrinsic value?

- **United States:** Most US companies present their annual results as at December 31. Results have been pouring in over the past few weeks and there have been some interesting positive developments for big names, including Facebook, Adobe and General Motors, and disappointing results from Caterpillar and IBM. But the best opportunities are not always with well-known brands. Skyworks Solutions is a producer of semiconductors. It makes the engines that enable a lot of those high-tech gadgets to work. Southwest Airlines is another interesting one. It is not one of the biggest US airlines but the low-cost carrier has bucked the trend and been profitable for a long time. It generated a return on equity of 31% in 2015, against 20% for Qantas and -5% for Virgin Australia.
- **Hong Kong:** The Hong Kong stock exchange has had a wild ride as its fortunes are closely tied to the rest of China. The Hang Seng Index (its main equity index) fell 7% in 2015 and 10% more in January. All that volatility can throw up interesting opportunities. The price of Haier Electronics, a manufacturer and distributor of whitegoods, has fallen nearly 50% since its April 2015 high and is trading at a 29% discount to its estimated intrinsic value. Menswear manufacturer China Lilang has fallen nearly 60% and its forecast dividend yield is 10%. You need a strong stomach but Hong Kong has some good return opportunities for a small portion of your portfolio.
- **United Kingdom:** UK residential housing construction has been strong and is forecast to remain so. The UK government has set a target for 200,000 new dwellings to be built

GETTY IMAGES

each year to address its housing problems. But experts believe 250,000 homes a year are needed. When we apply our top-stocks filter to the UK, four residential construction companies appear, the most attractive of which is Bellway. Earnings growth at Bellway has been exceptional for the past five years and is forecast to continue. Despite this, it is trading at a 46% discount to its estimated value. Life insurance firms also look attractive – global giant Prudential leads the way.

● **Europe:** For the past few years, most of the economic news coming out of Europe has been pretty gloomy. However, this does not necessarily translate into poor performance for companies listed on Europe's exchanges. It has a wide variety of companies and many derive a good part of their revenue from outside Europe.

The car industry as a whole has not fared well recently. But specialists in reducing the negative environmental impact of motor vehicles and developing intuitive driving capabilities are prospering. Automotive supplier Valeo's technology can be found in many cars, including Aston Martin, Audi, Hyundai, Nissan and Volvo. It is trading at a discount of 41% and has forecast growth of 7%.

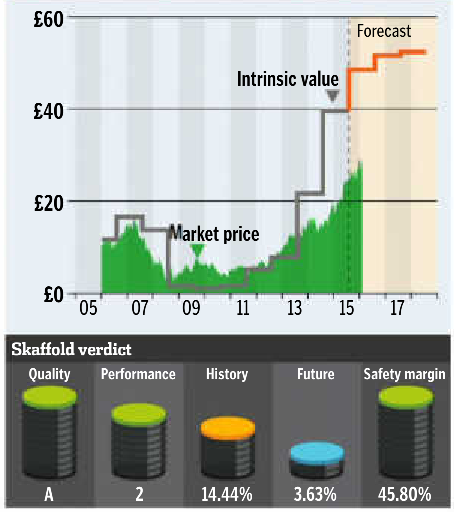
While investing in overseas markets can seem daunting, it needn't be. Many stockbrokers offer an overseas trading service and information and research is readily available. The attributes of a great company are constant, regardless of which market you consider.

OFFSHORE OPPORTUNITIES

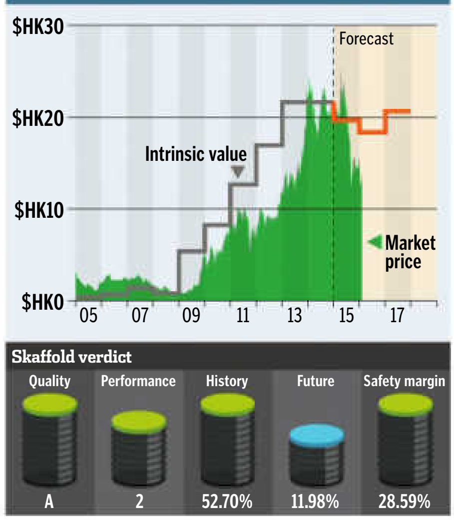
CODE	COMPANY	INDUSTRY	SKAFFOLD SCORE	FORECASTS 3YR GR (%PA)	FORECASTS DIV YLD	MARKET PRICE	DISCT[1]	INTR VALUE
US STOCKS								
SWKS	Skyworks Solutions	Semiconductors	A1	13.1%	1.7%	$62.16	53%	$130.78
GME	GameStop	Retail (tech)	A2	32.3%	5.4%	$26.83	49%	$52.73
LUV	Southwest Airlines	Airline	B1	19.5%	0.9%	$35.69	47%	$67.20
URBN	Urban Outfitters	Retail	A2	6.7%	none	$23.40	39%	$38.62
EBAY	eBay	Retail	A1	11.4%	none	$23.20	37%	$36.84
LONDON								
BWY	Bellway	Constrn services	A2	3.6%	3.5%	£26.39	46%	£48.69
PRU	Prudential	Life insurance	A2	5.3%	3.3%	£12.28	42%	£21.31
WOS	Wolseley	Plumbing, heat	B2	2.6%	3.0%	£33.17	36%	£51.86
QQ.	QinetiQ Group	Aerosp, defence	B1	3.8%	2.7%	£2.22	31%	£3.20
INCH	Inchcape	Retail (speclty)	A2	8.6%	3.2%	£6.88	25%	£9.21
EUROPE								
Fr	Valeo	Vehicle parts	B2	6.9%	2.4%	€112.40	41%	€189.89
ADEN	Adecco (Swiss)	Bus services	B2	8.2%	2.1%	CHF 59.95	22%	CHF 76.93
IPN	Ipsen	Biotech, drugs	A2	13.1%	1.9%	€50.40	13%	€57.64
SOW	Software	Software, progr	A2	3.9%	1.8%	€30.72	8%	€33.37
FPE3	Fuchs Petrolub	Chemical mfg	A2	2.5%	2.6%	€35.23	6%	€37.32
HONG KONG								
1234	China Lilang	Apparel	A2	9.6%	10.2%	$4.39	38%	$7.04
1169	Haier Electronics Group	Appliances	A2	12.0%	0.9%	$13.14	29%	$18.40
2356	Dah Sing Banking	Banks	A2	5.0%	2.9%	$12.94	26%	$17.40
966	China Taiping Insurance	Life insurance	A2	11.1%	0.2%	$15.78	14%	$18.42
2038	FIH Mobile	Comms equipt	B2	3.0%	2.8%	$2.82	-11%	$2.51

Source: Skaffold as at 10-Feb-16 close of trade. Values in local currencies. [1]Discount is the percentage discount the share is trading at compared with Skaffold's intrinsic value estimate.

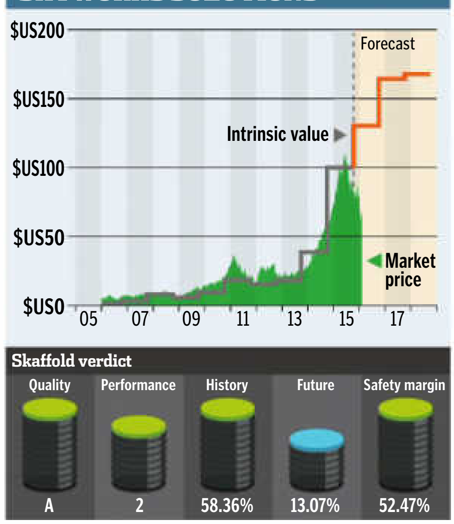
BELLWAY



HAIER ELECTRONICS GROUP



SKYWORKS SOLUTIONS



SECTOR FUND MANAGERS

Get a personal slice of the country's wealth

A volatile business can produce extraordinary returns, writes Roger Montgomery

WHEN COMMENTATORS speak of the financial sector, many investors think only of the banks. To limit one's portfolio this way, however, is to hobble the returns otherwise available from owning some outstanding businesses that are also in the financial sector. Funds management, for example, is one that receives far less attention than the traditional operations of a bank but it is a sector that can generate disproportionately large returns. It produces a large part of the earnings for some of the big banks: Colonial First State is owned by Commonwealth Bank and MLC by National Australia Bank. And there are other, separately listed managers.

During periods of outstanding performance, fund managers are lauded as omnipotent beings, able to forecast and navigate the future like financial clairvoyants. But during periods of poor market returns, they receive inordinate criticism for the fees charged and the salaries paid – and let it be said that when returns are poor these criticisms are valid.

Salaries – and returns to owners – are high, not only because of the fee structures but because the industry employs relatively few individuals who manage a relatively large amount of the nation's savings and wealth. When those fees are shared by the handful of employees and the owners, the amounts each receive can be large.

At the outset it is worth warning you that the behaviour of the shares in fund managers tends to be positively correlated with the market but more volatile. When the market falls, fund manager share prices can fall further. Given the current volatility, investors should expect flows into fund managers to slow and their share prices to be even more volatile than the overall market. Generally, you should seek a large safety margin through a sizeable discount to intrinsic value.

The revenue model of a fund manager is relatively simple to understand, as is the business itself. Indeed, without inventory, logistics or debtors, it can be argued that running a funds management business isn't really running a business at all. And a simple business to run means the management can focus on the levers that have a big impact.

There are only two levers that matter. The first is returns. Without great returns, a funds management business really has little to crow about. Mind you, mediocrity hasn't stopped some of the behemoths in the industry growing even larger. Their advantage is the second lever available to increase revenues: distribution or sales and marketing.

To generate consistently satisfactory returns, a fund manager needs three Ps, all of which must be outstanding and proven: philosophy, process and people.

The hallmark of every great investor is consistency, which is the only way to offer investors some comfort about future but unknowable returns. To ensure consistency, it is essential that the best people don't leave the company. To avoid the staff revolving door of other financial-sector businesses – such as financial planners and stockbrokers – it is vital that key staff participate adequately in company ownership. As a shareholder and owner, you should expect to be sitting alongside those who manage the money.

Great returns and ownership are one side of the coin. Without a growing pool of money to manage, even the best incentive structures cannot hope to adequately compensate the best people. (As an aside, investors in newly minted fund managers must look at not only the ability of the individuals to generate superior returns but also at their ability to communicate their ideas and build the pool of money they manage. This, of course, is less of an issue for the larger groups – such as those owned by the big banks – which can rely on large and well-connected teams of business developers to do all the talking.)

So another important aspect of the successful funds management business is the strategy employed to market the very attractive returns being generated. It is rare to find a business for which all these elements endure but, when they do, the returns are extraordinary for both staff and shareholders.

In the Australian market the following are the four listed fund managers that capture most of the headlines.

1 Platinum Asset Management

ASX code PTM
Price $5.96
52wk ▲ $9.50
52wk ▼ $5.84
Mkt cap $3.5b
Dividend 47¢
Dividend yield 6.2%
PE ratio 16.3

SELL

is an Australian-based fund manager with 14 funds in operation and $27 billion under management.

Its largest strategy, run by Kerr Neilson and Andrew Clifford, is a long-short offshore equities portfolio that has generated a return of 12.2%pa over the past five years.

Platinum's proposition is its long-term track record, having generated returns of about 13%pa since 1994.

In more recent periods, returns for the flagship Platinum International Fund have underperformed the index (World MSCI AUD) over most time frames, which – coupled with increasing competition in the company's niche – has led to waning net flows.

In Montgomery's view, it is difficult to justify Platinum Asset Management's current share price, given current levels of net flows. Indeed, we believe that even if returns were to improve and drive up net flows, the levels required to justify the current share price appear unreasonably high.

SHARE PRICES AS AT 10-FEB-16

❷ Henderson

is a UK-based fund manager with £81.5 billion ($166 billion) under management. Its reputation as a high-performing group of funds provides it with a competitive advantage that is difficult to replicate. In the past decade it has turned around from a manager that had seemingly constant net outflows into one with strong returns and distribution channels.

ASX code HGG
Price $4.89
52wk ▲ $6.56
52wk ▼ $4.86
Mkt cap $5.0b
Dividend 18.97¢
Dividend yield 4.7%
PE ratio 15.8

HOLD

In our view the company's prospects appear bright for three reasons: quantitative easing in Europe boosting inflows for managers with European equity markets expertise; changes to the structure of individual retirement planning in the UK; and a broadening of the group's product range in the US.

We value Henderson at $9.46 a share – a large premium to the market price at the time of writing. At current prices the market seems to be factoring in less than a 5%pa return on funds under management and total net flows of zero.

❸ Magellan Financial

is an Australian-based fund manager with seven funds in operation and $38.7 billion under management. The company's largest strategy is a long offshore equities portfolio of blue chip-global shares, which has generated average returns of 19.6%pa over the past five years.

ASX code MFG
Price $19.98
52wk ▲ $28.22
52wk ▼ $16.40
Mkt cap $3.4b
Dividend 74.9¢
Dividend yield 3.7%
PE ratio 18.3

HOLD

Coupled with a strong US sharemarket and falling Australian dollar, the strategy has performed well for investors and has arguably placed Magellan as a market leader in active offshore investment in Australia.

Complementing the success of the investment strategy is a carefully constructed and nurtured distribution channel which has a network of more than 500 independent planning groups, institutionally aligned financial planners, wealth management firms and other large institutions.

There's no doubt in our minds that Magellan is a quality business. However, in our view its shares are currently expensive.

❹ BT Investment Management

is, in my view, a high-quality asset manager that has grown its earnings power over the past few years via a combination of positive inflows, higher fees and some operational leverage (occupancy expenses, IT costs and about 25% of staff costs are fixed).

ASX code BTT
Price $8.74
52wk ▲ $13.20
52wk ▼ $7.77
Mkt cap $2.5b
Dividend 37¢
Dividend yield 4.2%
PE ratio 17.6

BUY

The crown jewel is the Hambros business (63% of revenues, 75% of cash net profit after tax), which generates all the company's net fund inflows. Domestically, BT itself has negative net flows and is only increasing funds under management via market returns.

Hambros positions itself as a specialist UK manager and has recruited several high-profile portfolio managers. Due to their cost, EBITDA (earnings before interest, taxes, depreciation and amortisation) margins are slimmer than those of other asset managers but the expense produces benefits in the form of inflows and market returns, which is translating into high returns on capital.

Roger Montgomery is the founder and chief investment officer at The Montgomery Fund. For his book, Value.Able, *see rogermontgomery.com.*

DATABANK

Your guide to the managed funds data

Professionally managed investment funds can be the way to go if you don't have the time or expertise to manage your own investments. For a fee, the professionals do the work for you.
Morningstar (www.morningstar.com.au), a leading global provider of investment research, supplies our managed funds data. There were more than 6000 funds on offer when Morningstar launched its star rating system to help investors to initially identify quality funds. The ratings are not for predicting future performance. Funds less than three years old are not rated and funds smaller than $10 million and with a minimum investment of more than $25,000 have been filtered out. Morningstar relies on the fund managers to supply data monthly; if updates have not been provided, a fund may be omitted.

Here you'll find information on several asset classes – Australian equities, international equities and multisector funds (sometimes called balanced funds). For multi-sector funds we show the asset allocation for selected funds. Returns are as at January 31, 2016, and other data is correct as at January 31, 2016. For any enquiries about the funds tables, you can contact Morningstar on 1800 034 455 or help.au@morningstar.com.

APIR Identification number of the fund. They are voluntary and not all fund managers elect to have APIR codes assigned to their funds.
MER/ICR The management expense ratio is the annual management fee paid to the fund manager. The investment cost ratio is a new calculation of this fee, recommended by ASIC and IFSA, and includes an additional performance fee based on the one levied the year before. Fees are a percentage of your investment.
Returns The returns published are net (after) the annual management fee but do not take into account any transaction (entry/exit) fees an investor may have to pay. The returns are before tax.
Entry fees Entry fees are levied on most managed funds. The amount varies between fund managers and depends on the fund's asset class. International funds generally attract the highest entry fees – up to 6% of the amount invested. You can avoid most entry fees by going through a discount broker. If you are using the services of a financial adviser, try to negotiate a discount. If you go directly to a fund manager you'll usually be charged the full entry fee.
Nil-entry-fee options are often available but higher management expense ratios usually apply.
Star rating Morningstar calculates and publishes star ratings for over 7000 funds monthly using the latest fund performance data. For a Morningstar star rating, a fund must be at least three years old.
★★★★★ very good performer ★★★★ good performer ★★★ average performer ★★ poor performer ★ very poor performer
NAp Not applicable **NAv** Not available

TOP 5 RETAIL AUSTRALIAN SHARE FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Fidelity Australian Equities	FID0008AU	0.85%	✗	$25,000	$4454m	-2.69%	8.64%	★★★★★
Perpetual Wholesale Industrial	PER0046AU	0.99%	✓	$25,000	$2283m	-2.34%	11.35%	★★★★
Schroder WS Australian Equity	SCH0101AU	0.92%	✗	$25,000	$2006m	-12.74%	4.29%	★★★
Ausbil Australian Active Equity	AAP0103AU	0.90%	✗	$20,000	$1726m	-5.46%	6.01%	★★★
Perpetual Wholesale Australian	PER0049AU	0.99%	✓	$25,000	$1468m	-4.65%	7.45%	★★★★

TOP 5 STOCKHOLDINGS

AUSTRALIAN SHARE FUND: Ausbil Australian Active Equity	HOLDING
Westpac Banking Corp	10.17%
Commonwealth Bank of Australia	10.01%
National Australia Bank	9.56%
Telstra Corp	7.24%
CSL	4.67%

TOP 5 RETAIL INTERNATIONAL SHARE FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Platinum International	PLA0002AU	1.54%	✓	$20,000	$11,287m	0.33%	10.07%	★★★★
Magellan Global	MGE0001AU	1.77%	✓	$20,000	$7937m	10.47%	19.80%	★★★★★
Walter Scott Global Equity	MAQ0410AU	1.28%	✗	$20,000	$1955m	7.62%	13.12%	★★★★
IFP Global Franchise	MAQ0404AU	1.38%	✗	$20,000	$1885m	13.77%	19.56%	★★★★★
Grant Samuel Epoch Glbl Eq Shldr Yld Uhg	GSF0002AU	1.25%	✗	$25,000	$1870m	1.94%	14.59%	★★★★★

TOP 5 STOCKHOLDINGS

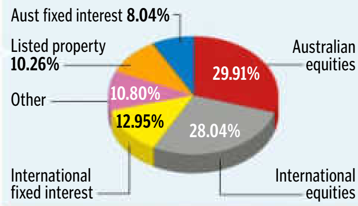
INTERNATIONAL SHARE FUND: Grant Samuel Epoch Glbl Eq Shldr Yld Uhg	HOLDING
AT&T	2.09%
National Grid	2.07%
Philip Morris International	2.06%
Verizon Communications Inc	2.05%
BCE	1.99%

TOP 5 RETAIL MULTI-SECTOR FUNDS BY SIZE

FUND NAME	APIR	MER/ICR %pa	REG SAV PLAN	MINIMUM INVESTMENT	SIZE	1-YEAR RETURN	5-YEAR RETURN	STAR RATING
Advance Balanced Multi-Blend Ws	ADV0050AU	0.80%	✓	$5000	$3219m	-1.24%	6.14%	★★★
Advance Growth Multi-Blend Ws	ADV0085AU	0.94%	✓	$5000	$2549m	-1.66%	6.26%	★★★
North Index Balanced	NMM0113AU	0.45%	✗	$100	$2055m	-0.03%	8.13%	★★★★
Advance Moderate Multi-Blend Ws	ADV0091AU	0.76%	✓	$5000	$1918m	-0.93%	5.54%	★★★
IOOF MultiMix Balanced Growth Trust	IOF0093AU	1.05%	✗	$25,000	$1834m	2.24%	8.18%	★★★★

ASSET ALLOCATION

Advance Balanced Multi-Blend Ws



MORNINGSTAR

TOP 5 RETAIL AUSTRALIAN SHARE FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
Perpetual Wholesale Ethical SRI	PER0116AU	1.18%	3-May-02	6.44%	**14.24%**	$1004m	★★★★★
Perpetual WFIA-Perpetual Ethical SRI	PER0491AU	2.28%	10-Nov-08	5.28%	**12.99%**	$29m	★★★★★
Perpetual Ws Share Plus L/S	PER0072AU	1.57%	14-Mar-03	0.42%	**12.23%**	$980m	★★★★★
Antares Prof Dividend Builder	PPL0002AU	0.60%	6-Sep-05	-3.12%	**12.17%**	$202m	★★★★
Sandhurst BMF Industrial Share	STL0100AU	2.07%	1-Dec-99	-1.42%	**11.45%**	$300m	★★★★

TOP 5 STOCKHOLDINGS

AUSTRALIAN SHARE FUND: Sandhurst BMF Industrial Share	HOLDING
Westpac Banking Corp	11.55%
Commonwealth Bank of Australia	9.30%
National Australia Bank	8.41%
Telstra Corp	5.12%
CSL	4.27%

TOP 5 RETAIL INTERNATIONAL SHARE FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
Magellan Global	MGE0001AU	1.77%	29-Jun-07	10.47%	**19.80%**	$7937m	★★★★★
IFP Global Franchise	MAQ0404AU	1.38%	17-Nov-04	13.77%	**19.56%**	$1885m	★★★★★
CFS FC Ws Inv-PM Capital Ws Global Cos	FSF0798AU	1.21%	24-Feb-06	6.77%	**18.25%**	$17m	★★★★★
Acadian Wholesale Global Eqty Long Short	FSF0788AU	1.29%	20-Jan-06	15.58%	**18.24%**	$23m	★★★★★
CFS FC Inv-PM Capital Global Cos	FSF0813AU	1.82%	6-Mar-06	7.98%	**17.91%**	$10m	★★★★★

TOP 5 STOCKHOLDINGS

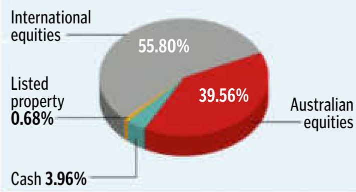
INTERNATIONAL SHARE FUND: Acadian Ws Global Equity Long Short	HOLDING
Apple Inc	3.27%
Nestlé	2.13%
Procter & Gamble Co	2.05%
AT&T	2.02%
Wells Fargo & Co	1.98%

TOP 5 RETAIL MULTI-SECTOR FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ICR %pa	START DATE	1-YEAR RETURN	5-YR RTN %pa	SIZE	STAR RATING
Perpetual Ws Split Growth	PER0066AU	1.16%	17-Mar-99	1.46%	**11.67%**	$26m	★★★★★
Perpetual WFIA-Perpetual Split Growth	PER0496AU	2.13%	10-Nov-08	0.50%	**10.57%**	$14m	★★★★★
BT Class Inv Split Growth	BTA0012AU	1.56%	12-Mar-84	-0.86%	**10.46%**	$215m	★★★★
Fiducian Ultra Growth	FPS0014AU	NAv	1-Dec-08	6.55%	**9.91%**	$94m	★★★★★
North Multi Manager Active High Growth	IPA0070AU	1.02%	29-Oct-07	-2.06%	**9.32%**	$92m	★★★★

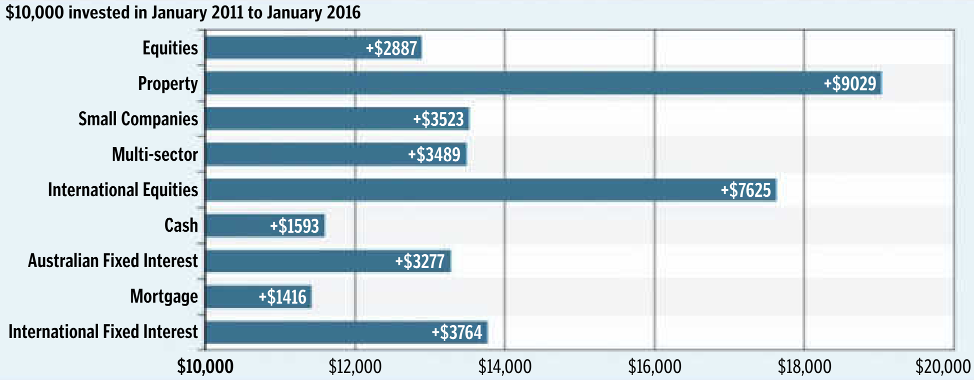
ASSET ALLOCATION

Perpetual Wholesale Split Growth



VALUE OF $10,000 BY ASSET CLASS

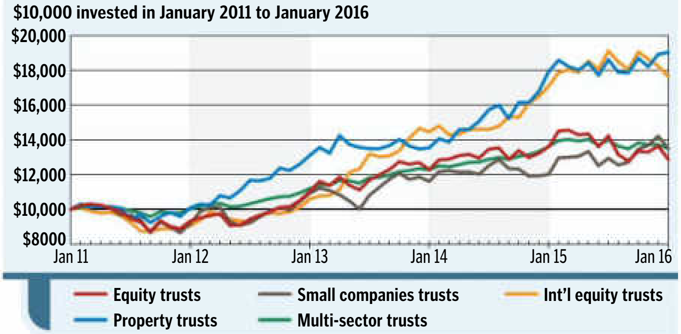
$10,000 invested in January 2011 to January 2016



The bar chart shows the five-year growth of $10,000 invested in different asset classes at the end of January 2011 until the end of January 2016. The property funds sector is showing the positive impact of managers becoming more conservative after the GFC and reducing debt. The strength of the international equity sector is partly because of the fall in the Australian dollar. $10,000 invested in the average-performing international share fund would have grown to $17,625 over the five-year period.

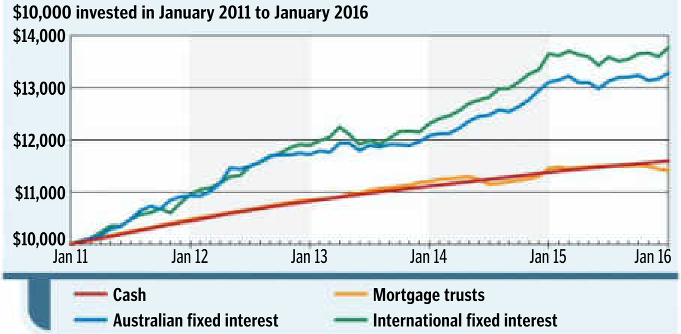
GROWTH OF $10,000 IN GROWTH ASSET CLASSES

$10,000 invested in January 2011 to January 2016



GROWTH OF $10,000 IN INCOME CLASSES

$10,000 invested in January 2011 to January 2016



Your guide to the real estate investment trust (REIT) data

SQM Research is one of Australia's most respected property research companies which specialises in providing accurate property related information, ratings and forecasts covering residential property and real estate related managed funds.

Funds data Supplied by SQM Research. Performance data as at December 30, 2015.

SQM ratings SQM has been an official rater of managed investment schemes since 2007 and, while perhaps better known for its residential property research, SQM's ratings sector is a core and integral part of its business. Here is what they mean: **4.5+** stars, **outstanding;** 4 stars to 4.25 stars, **superior; 3.75** stars, **good; 3.5 stars**, average; **3.25 stars, caution required; 3** stars, **strong caution required; below 3** stars, avoid or **redeem. NR** means the fund is not **rated.**

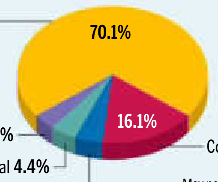
Disclaimer: SQM Research is an investment research firm that undertakes research on investment products exclusively for its wholesale clients, utilising a proprietary review and star rating system. Information contained in these tables attributable to SQM Research must not be used to make an investment decision. The SQM Research rating is valid at the time of publication, however it may change at any time. While the information contained in the rating is believed to be reliable, its completeness and accuracy is not guaranteed. The SQM Research star rating system is of a general nature and does not take into account the particular circumstances or needs of any specific person. Only licensed financial advisers may use the SQM Research star rating system in determining whether an investment is appropriate to a person's particular circumstances or needs. You should read the product disclosure statement and consult a licensed financial adviser before making an investment decision in relation to these investment products.

DOMESTIC PROPERTY SECURITIES FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ ICR	START DATE	SIZE	1-YR RTN	5-YR RTN (%PA)	SQM RATING
Legg Mason Property Securities Trust	SSB0128AU	0.74%	Jan 1995	$166m	12.0%	17.9%	NR
EQT SGH Wholesale Property Income Fund	ETL0119AU	0.95%	Nov 2005	$446m	14.4%	17.1%	4.50
APN A-REIT Fund	APN0008AU	0.85%	Jan 2009	$1011m	14.6%	15.6%	4.25
Principal Property Securities Fund	PRE0001AU	0.80%	Apr 2003	$5m	14.1%	15.0%	3.75
BT Wholesale Property Securities Fund	BTA0061AU	0.65%	Nov 1997	$349m	13.2%	15.0%	4.50

SECTOR ALLOCATION

Legg Mason Property Securities Trust



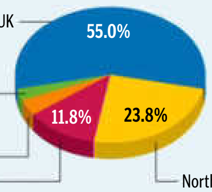
At Dec 30, 2015 SOURCE: SQM RESEARCH

GLOBAL INFRASTRUCTURE FUNDS BY 5-YEAR PERFORMANCE

FUND NAME	APIR	MER/ ICR	START DATE	SIZE	1-YR RTN	5-YR RTN (%PA)	SQM RATING
Legg Mason Real Income Fund	SSB0026AU	0.75%	Dec 2010	$261m	14.29%	18.82%	NR
Lazard Global Listed Infrastructure Fund (Hgd)	LAZ0014AU	0.98%	Oct 2005	$1047m	12.66%	17.63%	NR
Magellan Infrastructure Fund (Hedged)	MGE0002AU	1.06%	Jul 2007	$849m	10.60%	15.30%	4.25
RARE Infrastructure Value Fund (Hedged)	TGP0008AU	1.03%	Nov 2006	$1124m	-0.35%	10.79%	4.25
Macquarie Intl Infrastructure Securities Fund	MAQ0432AU	1.06%	Sep 2005	$416m	-3.37%	10.71%	NR

GEOGRAPHICAL ALLOCATION

Lazard Global Listed Infrastructure Fund (Hedged)



At Dec 30, 2015 SOURCE: SQM RESEARCH

GLOBAL PROPERTY SECURITIES FUNDS BY 5-YEAR PERFORMANCE

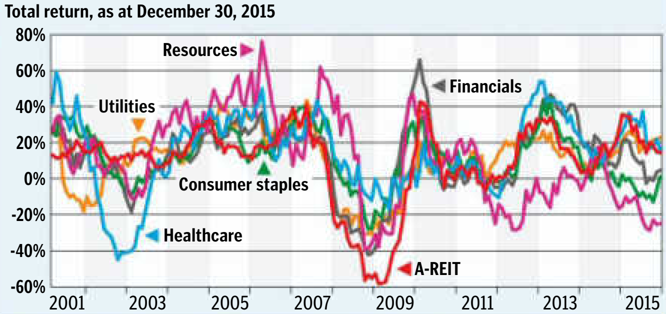
FUND NAME	APIR	MER/ ICR	START DATE	SIZE	1-YR RTN	5-YR RTN (%PA)	SQM RATING
Dimensional Global Real Estate Trust	DFA0005AU	0.42%	Oct 2007	$325m	12.66%	16.61%	NR
Resolution Capital Global Property Sec Fund	WHT0015AU	0.80%	Sep 2008	$430m	7.07%	13.72%	4.25
Principal Global Property Securities Fund	PGI0002AU	1.00%	Feb 2007	$309m	5.25%	13.25%	4.00
UBS Global Property Securities Fund	UBS0008AU	0.95%	Sep 2005	$52m	5.40%	11.90%	NR
BT Wholesale Global Property Securities Fund	RFA0051AU	0.95%	Jul 2004	$212m	1.01%	11.74%	4.50

TOP 5 STOCK HOLDINGS

Resolution Capital Global Property Securities Fund	PORTFOLIO
Simon Property Group	8.9%
AvalonBay Communities Inc	5.2%
Equity Residential	5.1%
General Growth Properties Inc	4.5%
Mitsubishi Estate Co	4.3%

S&P/ASX 300 SECTOR INDICES

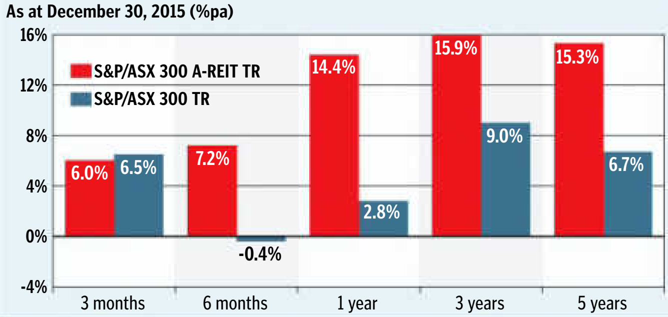
Total return, as at December 30, 2015



SOURCE: BLOOMBERG, SQM RESEARCH

TOTAL RETURNS

As at December 30, 2015 (%pa)



SOURCE: BLOOMBERG, SQM RESEARCH

Your guide to the real estate data

This month the data supplied is for the cheapest home loans available. It is important to be aware that the cheapest loan is not always the best loan for you. Low-rate home loans generally offer fewer features and less flexibility than premium loans. And be sure to work out the features you need before you shop because features such as offset or redraw can save you thousands on interest.

Home loan data Supplied by Canstar, correct as at February 8, 2016.

AAPR The annualised average percentage rate: Interest rates and fees are incorporated for easy comparisons among loans. The AAPRs are for a $250,000 loan over 25 years.

House and unit price chart The quarterly capital city median house and unit prices are compared with the median prices in the same quarter a year earlier and two years earlier. Similarly the capital city residential vacancy rates and stock levels are compared over three years. Supplied by SQM Research. Information is correct as at December, 2015.

LOW-RATE HOME LOANS

Institution	Product	Rate	AAPR	3 payment options[1]	IO available[2]	Lump sum repayments	Redraw	Upfront costs
Reduce Home Loans	Rate Buster Offset FF 70%	3.85%	3.83%	✗	✗	✓	✓	$1150
Reduce Home Loans	Rate Buster Offset FF 80%	3.88%	3.86%	✗	✗	✓	✓	$1150
Reduce Home Loans	Rate Buster Offset Fee Free	3.90%	3.88%	✗	✓	✓	✓	$1150
Mortgage HOUSE	Pure and Simple 40	3.89%	3.89%	✓	✗	✓	✓	none
Homestar Finance	Basic Refinance	3.86%	3.89%	✓	✗	✓	✓	$633
Yellow Brick Road	Rate Smasher	3.91%	3.93%	✓	✗	✓	✓	$363
Pacific Mortgage Grp	Variable	3.95%	3.95%	✓	✓	✓	✓	none
Homestar Finance	Owner-Occupied Property	3.94%	3.97%	✓	✗	✓	✓	$633
Bank Australia	Basic Home Loan Own-Occ	3.98%	3.98%	✓	✓	✓	✓	none
Mortgage HOUSE	Pure and Simple 50	3.99%	3.99%	✓	✗	✓	✓	none
UBank	Value Offer 20% Dep Min	3.99%	3.99%	✓	✗	✓	✓	none
Beyond Bank	Low Rate Special	3.99%	3.99%	✓	✗	✓	✓	none

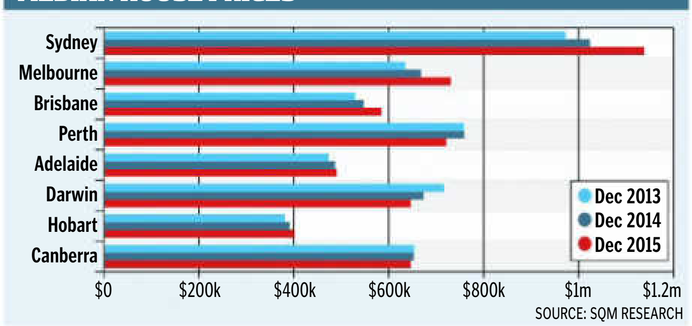
Ranked by AAPR (3 dec pl), then alphabetically. No loan listed has a penalty for exceeding repayment limits or an ongoing fee.
[1]Weekly, fortnightly and monthly. [2]Interest-only payments.

FIVE-YEAR FIXED HOME LOANS

Institution	Rate	Max lump sum repayment
Freedom Lend	4.39%	$20,000
Pacific Mortgage Group	4.39%	no max
Homestar Finance	4.45%	$10,000
AMO Group	4.49%	$20,000
Newcastle Permanent	4.49%	$25,000
Qantas Credit Union	4.49%	$10,000
Summerland CU	4.49%	$10,000
CUA	4.55%	3%
QT Mutual Bank	4.55%	$10,000
Teachers Mutual Bank	4.57%	NAv
UBank	4.57%	$20,000
UniBank	4.57%	NAv

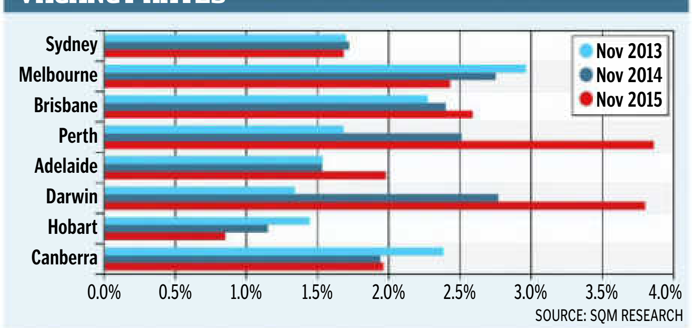
Ranked by rate, then alphabetically. Penalty can apply for exceeding repayment limit. Fees vary.

MEDIAN HOUSE PRICES

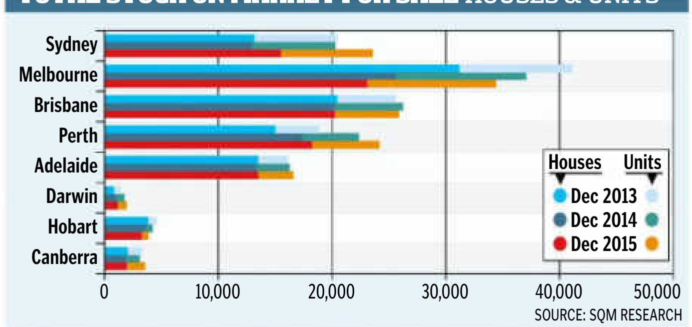


MEDIAN UNIT PRICES

VACANCY RATES



TOTAL STOCK ON MARKET FOR SALE HOUSES & UNITS



SQM's house index is based entirely on freestanding houses and terraces; other indices normally include townhouses as part of houses and are lower. SQM puts townhouses, villas, duplexes into units, hence the unit median index is higher than others. SQM also incorporates asking prices in its index for an update less weighted to lagging Valuer-General data.

Renovation reward

MANY PEOPLE may dream of buying and renovating a property for a profit but simply don't have the right tools or knowledge to make it happen. Renovating for profit may sound simple but over-capitalising or focusing on the wrong areas are easy mistakes to make.

Maximising your gains requires knowledge and discipline. If you are investing in the residential market, there are important things you need to know first. For those who take the time to educate themselves, rewards will follow.

The key is finding the right property in the right suburb. *How to Profit from Run Down Properties*, a four-part video series by property expert Jane Slack-Smith, can guide you to renovation success. This month, *Money* readers are able to obtain these videos, valued at a total of $49, free.

The following tips will help you achieve renovation success:

1 Slack-Smith's Trid3nt Strategy sets out three ways to make money: buy below the market; buy in a good capital growth area; and buy to be able to add value through renovation.

> **How to get this offer**
>
> **Go to**
> **moneycourseoffer.com.au**
> to get this video series, valued at $49, free.
> **Offer ends April 30, 2016**
> For support phone 1300 963 646

2 Research, research and research. You have to know what you need to know! Selecting the right suburb and even the right street is critical. Once you have determined that, you then need to confirm that the property has pricing disparity. This means there is enough difference between the values of renovated and unrenovated properties to not only get back the money you spend on the renovation but also make a profit.

3 You need to understand who your market is, what they want, and renovate to that expectation (or a little bit better) while still making a profit. So you have to choose a property that's actually a fit for the main buying and renting market in that suburb. The next step is to find out what features and finishes that type of market wants – for example, apartment or house, the number bedrooms, the kitchen (even down to details such as Caesarstone benchtops), parking, security, Foxtel – and then work out the cost and make sure it falls within your budget.

Some properties will never make money no matter how good the renovation looks. The key is a strategically planned renovation that starts with locating the right area and the right property.

The four-part series covers:

Video 1: How To Build a Successful Property Portfolio Using Renovation.
Video 2: Getting Started Quickly and Minimising Your Risks.
Video 3: The Art of Strategic Renovations.
Video 4: How to Spot the Profit in Rundown Properties.

As a bonus, you will get Slack-Smith's ebook *20 Essential Renovating for Profit Tips*.

If you're interested in renovating for profit, this video series will provide you with valuable tips on how to renovate to add the most value.

You will be surprised at how a strategic renovation with a tiny budget can return a big profit.